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ABSTRACT

To aid the teacher in providing instruction in small business ownership and management for students at the secondary, adult, continuing education, or community college levels, this curriculum guide contains 14 units, each consisting of introduction, objectives, content, and suggested activities. Suggested activities include projects, group dynamics, simulations, role playing, case studies, and assignments. A number of special activities included in each unit are categorized according to the areas of creativity and innovation, coping with change and competition, achievement motivation, problem-solving and decisionmaking, human relations ability, and developing a positive self-image. Most units contain at least one case study depicting a real-life business situation regarding the unit topic. Units are entitled (1) The Nature of Small Business, (2) Determining Product and Market, (3) Selecting the Location, (4) Obtaining Initial Capital, (5) Choosing the Legal Form of Organization, (6) Managerial Planning, (7) Recordkeeping, (8) Financial Management, (9) Credit and Collections, (10) Advertising and Sales Promotion, (11) Employee and Community Relations, (12) Obtaining Information and Assistance, (13) Insurance, and (14) The Future of Small Business. (NJ)

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owning and operating a small business

strategies for teaching small business ownership and management

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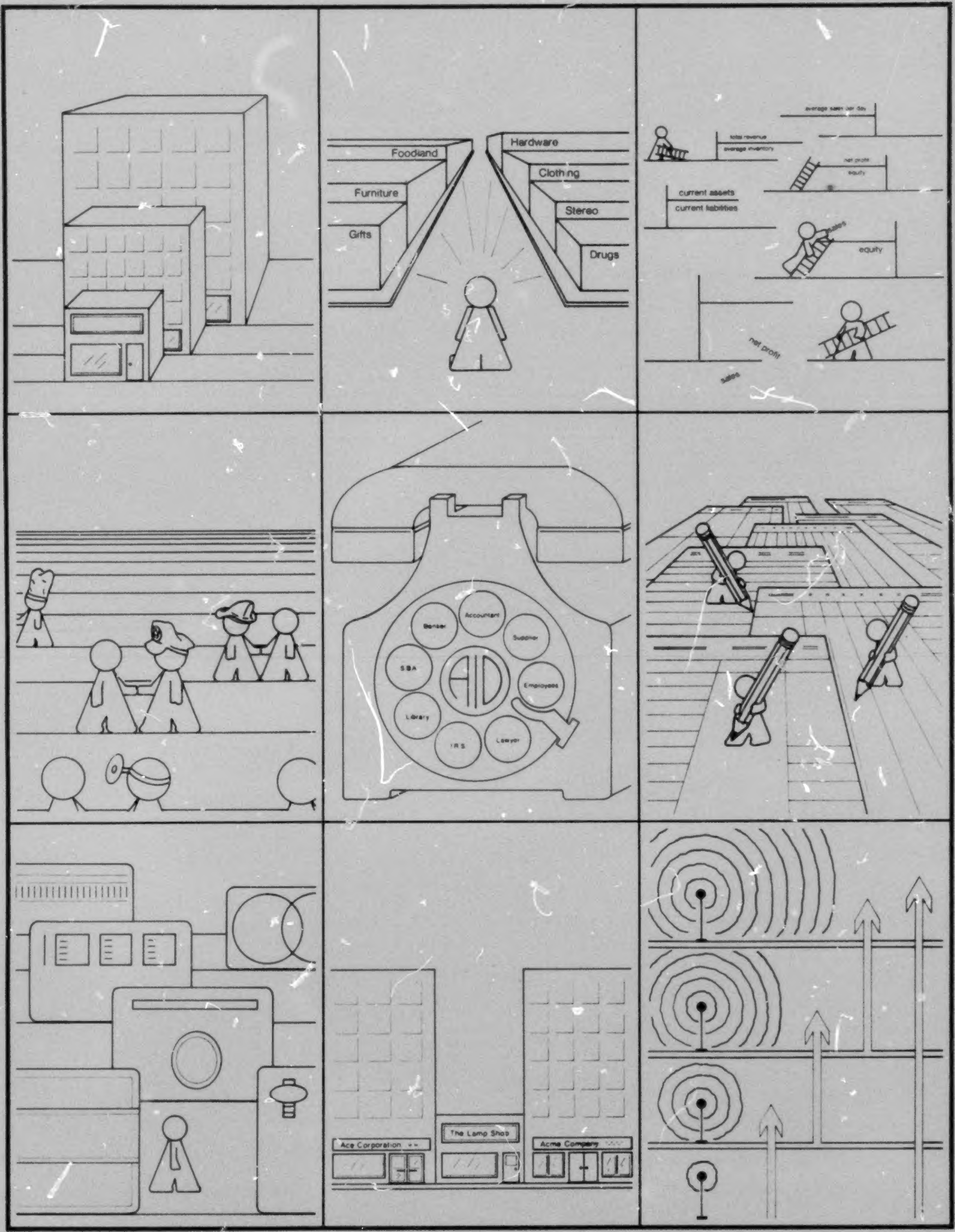
Foodland
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Drugs
average sales per day
total revenue
average inventory
net profit
equity
current assets
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net profit
sales
Accountant
Banker
Supplier
SBA
Employees
Library
IRS
Lawyer
AID
Ace Corporation
The Lamp Shop
Acme Company

introduction

Why Teach Small Business Management?

Small business represents a vital and significant force in the American economy. The role of small business has been extremely visible in the past. In the last century one writer, Alex de Tocqueville, recorded his fascination at the bustling economic activity which confronted him on his arrival in this country. Everywhere he looked he saw one kind of business or another. He saw a nation of people who "dared explore new frontiers, people eager to build lives for themselves in a spacious society that did not restrict their freedom of choice and action. There is undeniably something almost feverish in the activity this freedom imparts to industry and to the human spirit."

Today, the role of small business may be somewhat hidden when viewed within the context of our present industrial society. Too often we think of business in terms of large corporations. Such names as General Motors, Standard Oil, and General Electric are almost household words. Abroad, the image of the United States is a land of giants, a nation of big business.

Though not immediately apparent, small business is of vital importance to the economy of the United States. Small firms make a major contribution to American economic life. Opportunities exist for small businesses in all private sectors of our economy.

Judging by the number of small businesses currently in existence, small business ownership ranks high as a career choice. According to the Small Business Administration, of the eight million businesses in this country, 95% are considered small. Whether the subject of small business management is introduced to students to create an awareness of future career opportunities in small business, or as a means of preparation for a career as a small business owner/manager, the subject may be extremely relevant and timely for many students. As is the case for all career choices, the decision to become self-employed is a major one. This decision warrants careful consideration and study. To be successful, the small business entrepreneur should possess many qualities and skills. He or she should be energetic, enthusiastic, and be willing to work long hours. He or she should also have a great desire to achieve, be reasonably intelligent, and have good planning and decision-making abilities. For persons having these qualifications, the life and career of a business owner/manager will contain rewards in terms of work satisfaction, income, and the belief of contributing to social responsibility.

How Is This Guide Unique?

Until recently, formal education relating to small business ownership and management has not been very popular. Management education at all educational levels has tended toward the teaching of sophisticated managerial skills suitable for managers and employers of larger organizations. It is ironic that for all our verbal commitment to the American dream — that anyone can own a business and be his or her own boss — students are rarely taught the basic knowledge and skills necessary for operating a small business.

The need for instruction in small business management is further evidenced by the high mortality rate of small businesses. Many of the causes of business failure are internal to the firm and include certain highly personal factors such as the inability to get along with employees, as well as inadequate financing, poor planning, inadequate records and unwillingness or inability to keep abreast of, or ahead of change. This guide will pertain to personal factors of owning and operating a business as well as the more traditional small business management topics.

The objective of this guide is to aid the teacher in providing instruction in small business ownership and management to students who desire the knowledge and skills necessary to start a small business and nurture its growth. While the content of the guide is directly related to the teaching of management information and skills, a unique aspect of the guide is the design of the activities suggested in each unit.

Activities designed to enhance human or attitudinal factors which are necessary for successful small business ownership and management appear regularly throughout the guide. Research indicates that the successful entrepreneur possesses certain qualities which contribute to his or her success. Although there can be some debate concerning the feasibility of teaching such things as decision-making, creativity, achievement motivation, and similar qualities, many of the activities are designed to build upon and expand these personal qualities which are possessed by all persons in varying degrees. The methodology, activities, and the dynamics of the class members should enhance the development of these qualities which will enable persons to become effective business owners and managers.

Where Can the Guide Be Used?

The guide has been developed in a manner that allows it to be utilized wherever it is desirable to emphasize the subject of small business management; whether in adult and continuing education classes, at the community college level, or as career awareness information at the high school level.

How Can the Guide Be Used?

The flexibility of the materials presented in this guide promotes its usage in various ways. In its entirety, the guide can become the catalyst for developing a course in small business management or it can be used as either a primary or supplemental resource for an existing course in small business management. The guide can also be used most effectively to integrate small business concepts into ongoing business courses.

Students often do not grasp the relevance of a business concept because examples used to illustrate the business concept usually relate to the operation of a large business organization. These examples usually do not relate to the previous experience of the students. Students are better able to understand business concepts when small businesses located in their own community can be used to illustrate the concept. For example, a course in Principles of Management might utilize portions of the guide which emphasize managerial planning for a small business. The guide can be used in any course where it is desirable to make the topic relevant to the needs of small business owners.

Who Should Use This Guide?

Anyone who desires to teach small business management will find this guide useful. The management and operation of a small business is a subject which may be of interest to educators in all vocational education areas in preparing students for a career. The most obvious area of application is the Business, Marketing, and Management Occupations where it can be used in any course to emphasize small business management.

The topic of small business management is not limited to the Business, Marketing, and Management Occupations cluster. Educators in the Applied Biological and Agricultural Occupations cluster will find that the guide is relevant to instruction in Agri-business and other related subjects. Two examples would be: a) students interested in operation and management of a farm, and b) students who aspire to operate florist shops. Health Occupations instructors may discover that some of their students are interested in operating a small business as they prepare for work providing care and health services to patients. An example might be a private nursing service. Certainly, the Industrial Occupations teacher knows that many students desire a business of their own such as a small machine shop or a construction firm. Within the Personal and Public Service Occupations, students have often expressed an interest in careers as small business owners and managers. Examples of careers in this area would include operation of child care centers, laundromats, or catering services.

Small business ownership and management as a career option is an integral part of all vocational education clusters. This guide has been developed for use by all instructors attempting to adequately meet the career aspirations of their students.

How Is This Guide Organized?

Each unit consists of: a) introduction, b) objectives, c) content, and d) suggested activities. The introduction to the unit is an overview of the topic and provides proper perspective for the instructor. The introduction also identifies the unit objectives and the unit's relationship to other units. The introduction should prove useful to the instructor when explaining the importance of the unit to the students. Students should understand why each unit is important and how the unit relates to business ownership and management.

Each unit includes various student objectives which are stated in behavioral terms. These objectives will assist instructors to know the desired student outcomes upon completion of the unit.

The content of each unit is explained in detail. The content for each unit is followed by suggestions for general and special activities which include: projects, group dynamics, simulations, role playing, case studies, and assignments. The purpose of the general activities is to familiarize the students with the knowledge and skills necessary to own and operate a growing and successful business. The activities are based on the topics covered in the units.

A number of special activities are included in each unit and are a unique aspect of the guide. Each special activity can be categorized under one or more of the following areas:

Area	**Symbol**
1. Creativity and Innovation	Creativity
2. Coping with Change and Competition	Change
3. Achievement Motivation	Achievement
4. Problem Solving and Decision-making	Decision-making
5. Human Relations Ability	Human Relations
6. Developing a Positive Self-image	Self-image

Each special activity is identified by a special symbol in the right-hand margin. As the special activities appear in the various units, the relevant identifying symbols are also printed in the margin. The purpose of the symbol is to identify for the instructor the particular quality which the activity is designed to develop or highlight.

Why Are These Qualities Important?

The small business owner/manager must have a working knowledge of the traditional management skills. To be successful, it also appears important that the business owner/manager possess the following personal qualities:

1. Creativity and Innovation

Creativity

Creativity and innovation are complimentary. In order to be innovative one must be somewhat creative. Creativity has been defined as a combination of new and old ideas which will better satisfy a need. The application of creativity may be an important reason for the success of any business. The formation of the business itself is a creative act. Creativity can help in the long-range forecasting of the future role of the business and of the future environment in which the business will operate.

Creativity can be useful in surmounting problems in advertising and sales promotion, and in many other business activities. Everyone is born with a certain capacity for creativity. The extent to which people in business are creative depends on how they are treated, how they are encouraged to be creative, and whether the opportunities arise for them to make use of creativity in their business. Creativity can be augmented through training.

2. Coping with Change and Competition

Change

The effective business owner/manager is not interested merely in making a reasonable return on investment in the current years. He or she must also look ahead, and to a greater or lesser degree, prepare plans for the firm five to ten years in the future. It is possible to get some idea of the extent of future change when one reflects on the tremendous changes that have occurred in the past ten years.

Changes in the future will continue at an accelerated rate. In order to be successful in the future, the business owner/manager must become adept at coping with change. Activities have been designed to facilitate the students' understanding and ability to cope with situations involving change.

3. Achievement Motivation

Achievement

The literature describes the successful entrepreneur as one who has high need achievement. A need achiever is one who takes moderate risks, takes responsibility for his or her actions, looks actively for feedback to improve performance, and has a propensity to action. He or she does not wait for things to happen. Need achievement can be developed; this is borne out especially by the work of Dr. D.C. McClelland, who has done considerable work in the area of need achievement.

4. Problem Solving and Decision-making

Decision-making

The success of the business owner/manager will depend to a large extent on his or her ability to solve problems and make decisions quickly. Throughout the guide, the student will be given an opportunity to understand and practice the following procedures in the decision-making process:

a. Becoming aware of the problem
b. Clarifying the problem situation
c. Collecting information
d. Identifying alternative solutions
e. Selecting the best alternative solution and taking action
f. Evaluating results

5. Human Relations Ability

Human Relations

Human factors, both in relation to employees and the general public, are an important ingredient of success, especially in small business. Ability to have personal contact with customers is a decided advantage which the small business has over its larger competitors. Customers' needs are a prime consideration. The marketing strategies of many small businesses are customer oriented rather than product oriented.

Employee relations should also be people-centered. Managing people is primarily the art of practicing human relations. When people work together in groups, an atmosphere should be created in which people are free to do their best. Due consideration should be given to employee needs; they should be treated with fairness and consideration.

6. Developing a Positive Self-Image

Self-image

A positive self-image begins with an awareness of self. The prospective business owner/manager must be willing to spend time evaluating his or her own personality. Personal strengths and weaknesses must be identified and understood. Does he or she have the attributes — physical, mental, and emotional — required in the role as entrepreneur? He or she must be willing to make an effort to change or modify any negative or unwanted personal traits.

How Should the Case Studies Be Used?

Most of the units in the guide contain at least one case study which depicts a real-life business situation regarding the unit topic. Included with each case are: a) points to be highlighted by the case, b) suggested questions for discussion and c) a possible solution to the case problem. Included in the first unit of the guide is a "worksheet for decision making" which can be used with all of the cases in the guide. This worksheet can be used by the students to guide them through the decision-making process.

The case method is a teaching device that helps the student learn through the process of problem solving and decision-making. Students are encouraged to exercise thinking ability as they analyze practical business problems.

Since a case does not have one "right" answer, it lends itself to discussion and analysis. Properly used, a case will hold the participants' interest and stimulate their thinking. The case method allows the students to learn and exercise problem solving and decision-making skills. Case studies can be used in several ways to augment the information presented in each unit:

1. individual assignments.
2. entire class discussion.
3. small group discussion and analysis.
4. as a means of evaluating the student's ability to apply what has been learned in a practical situation.

When group discussion of a case is used, each member of the group contributes from his or her unique experience and each participant gains from the others.

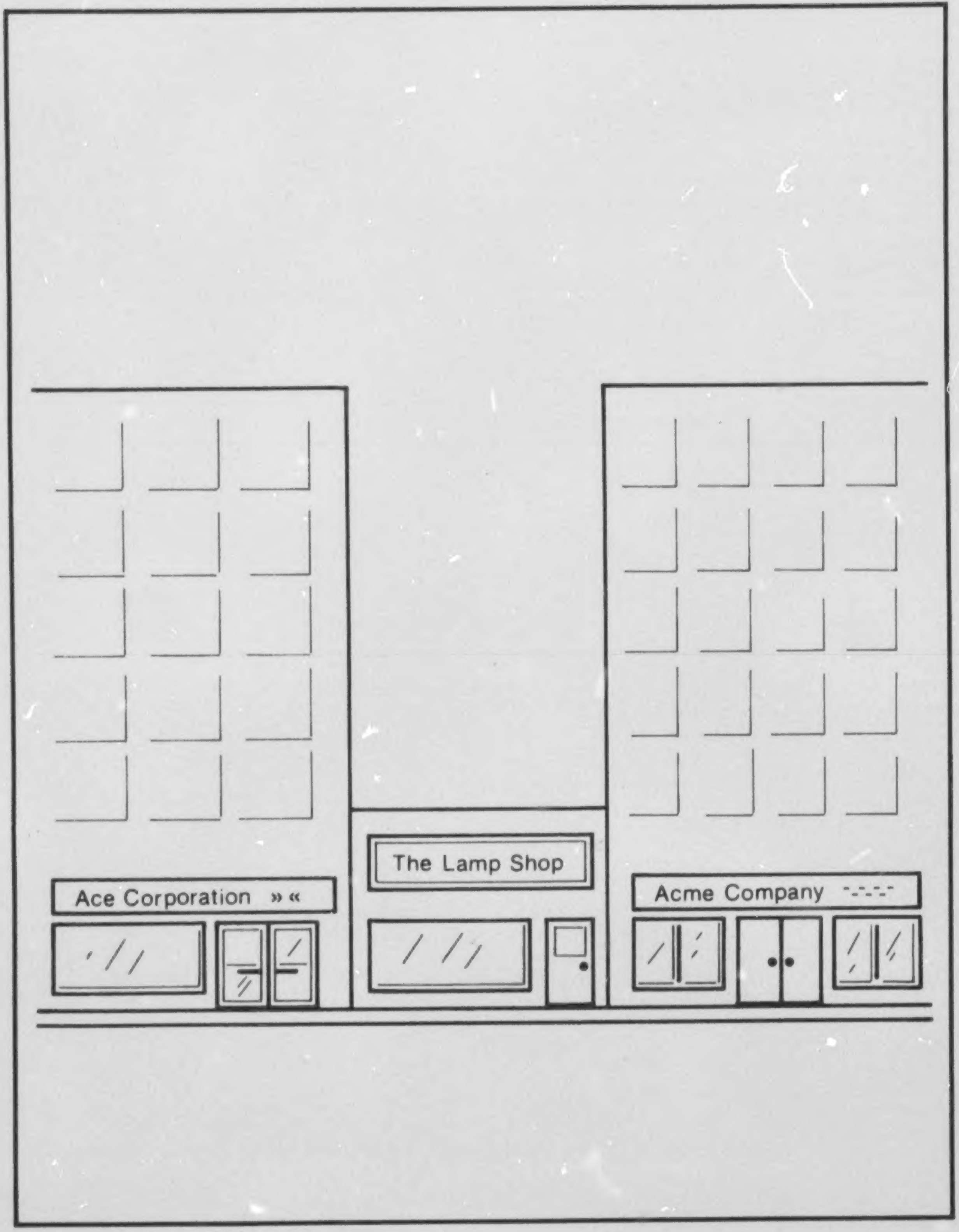
How Can the Information Presented in the Guide Be Supplemented?

To assist instructors in supplementing the materials contained in the guide and to encourage instructors to expand the basic information presented on each topic, various sources for further information have been included in the guide.

An annotated bibliography has been included at the back of the guide. This bibliography contains sources of general information on the subject of small business ownership and management in the retail, wholesale, service, construction, and manufacturing domains.

Appendix A, the Small Business Perceptions Inventory, may be used by the instructor as an introduction to the subject of small business ownership and management. It is not designed to evaluate students' learning of small business concepts. Instead, it may serve as a catalyst for class discussion and lead to a more accurate awareness of small business ownership and management concepts.

Appendix B, the Small Business Ownership and Management Test, is a one-hundred item objective test which the instructor may use as one means of evaluating student progress in learning the information and concepts presented in the guide.


The Lamp Shop
Ace Corporation »«
Acme Company -.-.-.-

unit one
the nature of small business

Very few would argue with the notion that it is wise for a person to know something about a particular business before attempting to own and operate it by oneself. It is highly advisable for anyone interested in owning and operating a small business to know something about small business in general before beginning the endeavor. The prospective entrepreneur should work in a similar type of business, if possible, before starting his or her own business.

The instructor should be fully aware that although students may be highly interested and highly enthusiastic, most students lack considerable knowledge of the actual operations of small business. While introducing the small business course, it is the task of the instructor to provide opportunities for student insight with regard to the nature and environment of small business. Such considerations as economic contributions of small businesses, what it means to be small, and available opportunities in small business, should be emphasized by the instructor. In this introductory unit students should begin to become aware of personality characteristics of the successful entrepreneur, and be introduced to various success and failure factors that play an important role in small business ownership and management.

Unit Objectives

- *To provide the student with information on the nature and environment of small business in the United States.*

- *To make the student aware of the personality characteristics associated with successful entrepreneurs.*

- *To make the student aware of various success factors which have been shown to be critical to the survival of a small business.*

- *To make the student aware of various failure factors which have been shown to be critical to the survival of a small business.*

Student Objectives

- *Given information on the nature of small business, the student will be able to:*

  a) develop a personal definition of small business.

  b) list at least three types of businesses which provide special opportunities as small businesses.

  c) identify two reasons why small businesses are important to the economy.

- *Following a discussion regarding advantages and disadvantages of being small, the student will be able to list and explain four advantages and four disadvantages of operating a small business.*

- *Following a discussion on personality characteristics of the successful entrepreneur, the student will be able to make an appraisal of his or her own personality characteristics by responding to a "Checklist for Going into Business."*

- *Given a list of reasons for small business failure, the student will be able to list at least five failure factors and suggest ways of avoiding these pitfalls.*

I. What Is Small?

A. There are numerous definitions of small business available which include various figures and restrictions. The following definition and figures are taken from the Small Business Administration.

B. Of the eight million businesses in this country, 95% are considered small.

C. A small business is one which is:

1. independently owned
2. not dominant in its field of operation
3. operated for profit
4. within the particular size standards for its industry or area. The size standards include:
   a. retail and service businesses with less than two million dollars annual sales
   b. wholesaling businesses with less than nine million dollars annual sales
   c. manufacturing businesses with less than 250 employees
   d. construction businesses averaging annual receipts for the preceding three years of $9.5 million or less

D. Approximately 40% of the United States Gross National Product is contributed by small businesses.

E. Small business predominates in the retailing, wholesaling, construction, and service industries. Although there are a great number of successful small manufacturers, the manufacturing industry is dominated by big business.

- *Have the students write down what they believe is a good definition of small business. From these definitions of small business, a good discussion of what is small can be generated. A good definition would include such factors as annual sales volume, number of employees, and size of trading area.*

- *Have students react to the following proposal:* ***All small businesses should be closed down immediately for the sake of the economy. Small businesses are less efficient than large businesses and add very little to the growth of our economy.*** *The class discussion should include comments on employment opportunities and competition. It should also be pointed out that small business is needed to supply big business and service their products, as well as to sell products manufactured by large businesses.*

II. What Are the Advantages and Disadvantages of Being Small?

A. **Advantages:**

1. Opportunities for personal relationships with customers and employees
2. Able to adapt quickly to change
3. Lower taxes
4. Fewer government regulations
5. Independence

B. **Disadvantages:**

1. Management not specialized
2. Shortage of working capital
3. Difficulty in obtaining capital
4. Lack of extensive market research
5. Difficulty in hiring and keeping top employees
6. Difficulty in keeping hours of operation competitive with large businesses

- *Have the students add to the above list of advantages and disadvantages of being small. This discussion should focus on business aspects rather than personal advantages and disadvantages.*

- *This activity is designed to illustrate the advantages and disadvantages of being small:*

1. *Divide the class into two groups who will represent large businesses.*
2. *Select two individuals to represent small businesses.*
3. *Inform each group (businesses) that they are in the same field. For example, the large groups can represent two large chain department stores and the individuals can represent small one-owner clothing stores.*
4. *Appoint half of the students in the large groups as members of the board of directors of the business and designate the other students in each large group as store management. The board of directors for each business should be isolated from the store management of that business.*
5. *All decisions made by the large businesses must be the result of discussion among the managers, voting, and the reaching of a majority decision.*
6. *The large business managers must be able to justify their decision to the board of directors, who*

will make final decisions by taking a vote on each issue.

7. *All decisions made by the small businesses need only satisfy the owner. There is no formal process to go through.*
8. *The instructor introduces three or more problems to the businesses and records the time required to make decisions for each business.*

Problem 1: *Retail employees are seeking higher wages. They are asking for a 50 cents an hour increase.*

Problem 2: *The major supplier of the best selling brand of blue jeans for all of the businesses is raising his price to the business by 20%.*

Problem 3: *None of the businesses are currently granting credit to customers. As a result much sales volume is being lost. A decision must be made regarding the credit policy of each business.*

9. *Upon completion of the activity, discussion should focus on the time required by each business to make decisions and cope with changing situations, and the quality of the decisions made by all of the groups.*

III. How Do You Rate As an Entrepreneur?

A. Entrepreneurs tend to go into business for themselves for the following reasons:
   1. Independence — want to be own boss
   2. Immediate need for a job
   3. To supplement income
   4. To build a business for their children
   5. To make more money
   6. Opportunity to prove one's ability

B. Successful entrepreneurs tend to exhibit these personality characteristics:
   1. Organizing ability
   2. Leadership
   3. Drive — enthusiasm
   4. Problem solving ability
   5. Ability to make quick decisions
   6. Human relations ability
   7. Communications ability
   8. Good health
   9. Willingness to work long hours
   10. Sense of independence and self-confidence
   11. Willingness to take moderate risks
   12. Technical knowledge
   13. Tenacity—ability to bounce back after setback

- *Ask the students if they think it involves more risk taking to be self-employed rather than working for someone else. Discussion of the risks involved with entrepreneurship should emphasize that the entrepreneur is a moderate risk taker.*

- *Invite several successful local business people to the class to conduct a panel discussion on what it takes to be successful in today's business world. A list of characteristics covered in class might be helpful to the panel members.*

- *The following activity has been adapted from the Small Business Administration's "Checklist for Going into Business." It is designed to allow the student to make a self-analysis regarding personal qualities of the successful entrepreneur. It is also designed to measure whether the student is capable of evaluating his or her own personal qualities:*

1. *Tell the students at the outset that the checklists will not be turned in and that they are for their own information.*
2. *Have the students check the appropriate column (YES, NOT SURE, NO) and have students recheck all of their NOT SURE items.*
3. *When the checklist is completed, have each student write short paragraphs (one or two sentences) describing their strengths and weaknesses as a business owner/manager.*
4. *One paragraph should reflect how they see themselves, and the other paragraph how they think others view them.*
5. *When scoring the checklist, all YES responses receive two points. All NO responses receive one point, and all NOT SURE responses receive zero points.*
6. *A high score shows that the student perceives himself or herself as a potentially successful business owner/manager. All NO responses are given one point because this shows that the student is willing to recognize weak points. NOT SURE responses are given zero points since this reflects a rejection*

Checklist for Going into Business

1.	I am a self-starter. I get things done.	YES	NOT SURE	NO
2.	I like people. I can get along with just about anybody.	YES	NOT SURE	NO
3.	I am a leader. I can get most people to go along when I start something.	YES	NOT SURE	NO
4.	I like to take charge of things and see them through.	YES	NOT SURE	NO
5.	I like to have a plan before I start. I'm usually the one to get things lined up when our group wants to do something.	YES	NOT SURE	NO
6.	I like working hard for something I want.	YES	NOT SURE	NO
7.	I can make up my mind in a hurry if I want to.	YES	NOT SURE	NO
8.	People can trust me. I do what I say.	YES	NOT SURE	NO
9.	If I make up my mind to do something, I'll see it through.	YES	NOT SURE	NO
10.	I have plenty of energy and can keep going indefinitely.	YES	NOT SURE	NO

of self-confrontation or personal indecisiveness. A successful business owner/manager should be willing to evaluate himself or herself honestly.

IV. What Are Some Proven Success and Failure Factors?

A. The first two years of operation are the most critical. The vast majority of failures occur during this time. Studies also show that if a business operates successfully for five years its chances for continued success are very good.

B. The Small Business Administration estimates that at least 90% of all small business failures can be attributed to bad management. The following list of failure factors can be attributed to poor management:

1. Insufficient capital
2. Unwillingness to seek information and assistance
3. Failure to survive unexpected events
4. Lack of experience
5. Poor location
6. Inventory mismanagement
7. Poor credit granting practices
8. Taking too much salary
9. Not keeping personal and business funds separate
10. Various personality factors

- *Divide the class into groups of four or five students. Have each team prepare good management techniques to offset each of the failure factors presented above. These management techniques may be written on the chalkboard and discussed by the entire class.*

The Son-in-Law

Bus Nessman, having recently graduated from a community college with a degree in Liberal Arts, joined VISTA. Bus could not decide what type of work he wanted as a career and thought that working in VISTA would give him time to decide. While serving the people of a poor section of Appalachia, Bus met Alice, the daughter of George Grinder, a prosperous owner of three stores in the nearby towns featuring a line of household products.

After Bus and Alice had completed their VISTA assignments, they married and Mr. Grinder offered Bus a position as marketing manager for his three stores. Since Mr. Grinder had only one child in the family, a daughter, he kind of liked having a son-in-law to talk with when the couple came over for dinner. He and Bus would usually watch football games after dinner on Sunday afternoons.

Since Mr. Grinder saw that Bus' physical appearance was a "natural" to attract people, he hoped for the time when Bus, after learning the ropes of the business, might take over the business when he retired. To aid in this development, Mr. Grinder bought a car for Bus to use when coordinating his activities between the three stores. In spite of his good feeling toward Bus, Mr. Grinder found himself observing questionable patterns in the way Bus handled the operations of the stores.

Bus seemed not to put the required time into the job that Mr. Grinder estimated would be the minimal amount for Bus to survey the three operations, to buy merchandise for each store and to become familiar with all of Mr. Grinder's employees. Bus tended to work sporadically, sometimes showing up at the stores an hour late. He tended to take long lunch hours, and seemed to quit very early to go home for dinner.

In spite of his son-in-law's practices, Mr. Grinder's three stores were doing well. People knew that Mr. Grinder's houseware utensils and cookware were of the best quality and were sold at a fair price. In fact, there seemed to be more of a demand for some of his products than Mr. Grinder could keep on hand.

Mr. Grinder was still hoping that Bus would one day be able to take over his position and shoulder the responsibility for the continued success and growth of the stores. Mr. Grinder and his wife were now beginning to appreciate, more and more, the times when they could get away from the company for three or four days at a time to enjoy themselves. Mr. Grinder, in light of the way Bus seemed to be going, would call his son-in-law into his office and communicate these personal wishes to him, hoping that Bus would become a more responsible business person. Mr. Grinder noticed that Bus would seem to shape up for a while but then slack off again.

Mr. Grinder thought that perhaps he had misjudged Bus' natural talents and that he had forced Bus into an area of the business that he did not like very much. Therefore, Mr. Grinder put Bus in direct control of the Samesville store as manager. This would involve less traveling for Bus and perhaps Bus would learn to consider the store his "baby," just as Mr. Grinder felt toward the total business that he had started from scratch.

But it seemed that Bus did not change very much. In some areas he seemed to get worse. He tended to keep a tight control on everything that went on in the store, even the trivial matters. He seldom went out into the store itself, but preferred to stay in his office at the back of the store. The employees began to become disgruntled and angry with his policies toward them. They began to feel that he did not care about them and their working conditions. He often ignored their requests for time off for special needs, and when they questioned him about it, he merely told them that there were other places in town where they could work.

A year later Bus was having very serious problems with the store. It came to Mr. Grinder's attention when a man who had starting working at the original store twenty years ago quit with no reasons stated. Mr. Grinder knew this man personally and knew that he was a hard worker and was very loyal to the business. Mr. Grinder knew that the situation was now critical. He asked himself . . . "What is Bus' problem?" . . . "What could he have done to bring out Bus' potential?" . . . "Should he finally admit that he must give up his dream of a son-in-law taking over the family business?"

Suggested Questions for Discussion:

1. Why do you think Bus wanted to join the business?
2. Bus is being presented with an ideal opportunity to become an entrepreneur. In your opinion, does Bus possess the personality characteristics of a successful entrepreneur? Compare Bus' personality with Mr. Grinder's.
3. What effect is Bus having on the business?
4. Do you think Bus can become a successful small businessman? Why or why not?
5. What suggestions do you have for Mr. Grinder? Be specific.

Points To Be Highlighted by the Case:

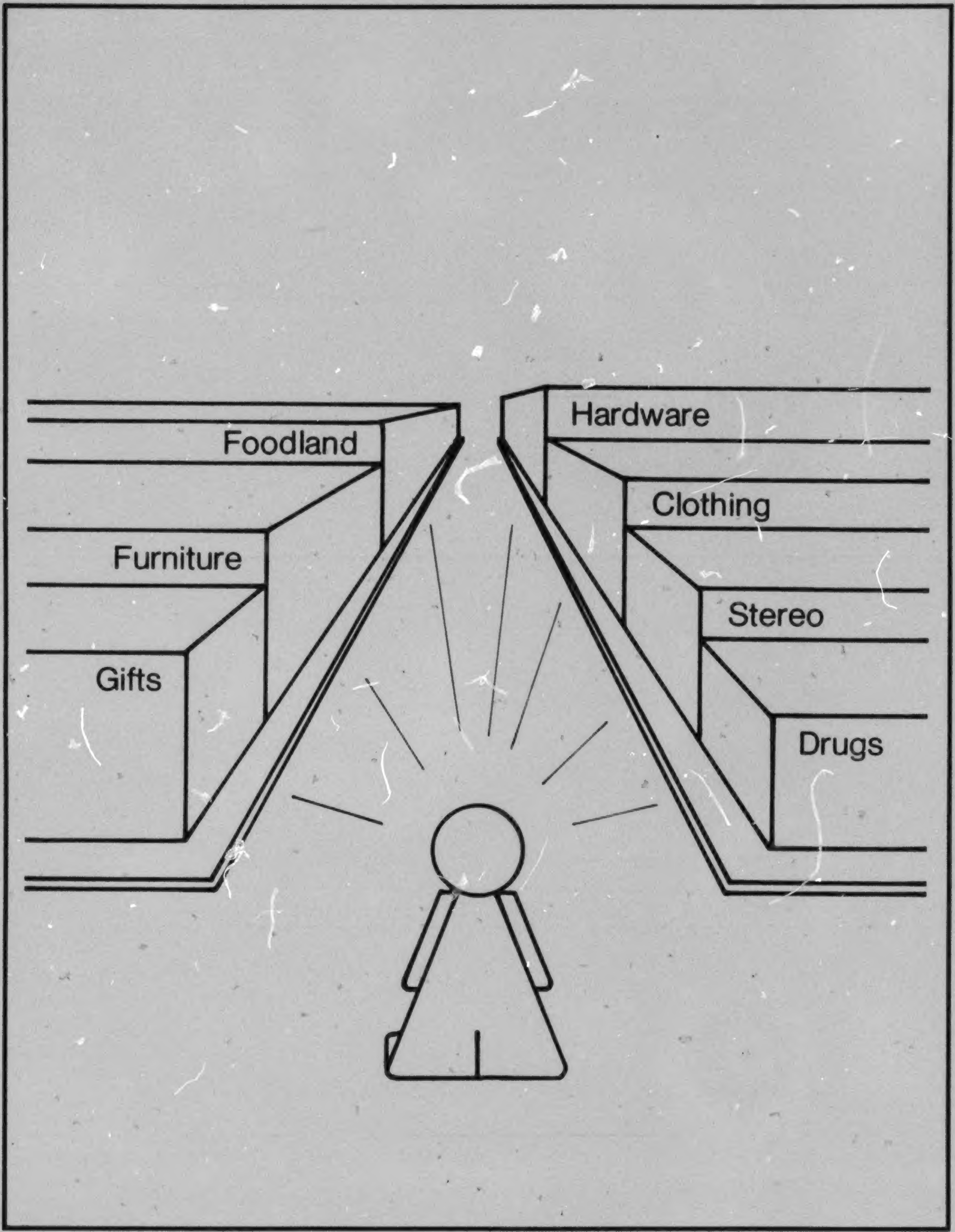
1. *Reasons why entrepreneurs tend to go into business for themselves.*
2. *The personal characteristics of a successful entrepreneur.*
3. *The problems of a "family" business.*
4. *The effects of poor management on a business.*

Possible Solution:

1. *Bus probably joined the business because it was an opportunity which he could not pass up. It appears that neither Bus nor Mr. Grinder gave the situation very much thought.*
2. *Bus lacks most of the personality characteristics that successful entrepreneurs usually possess. For example, leadership, organizing ability, drive and enthusiasm, human relations ability, and a willingness to work long hours. Since Mr. Grinder has been successful in building the business to its present status, he more than likely possesses most of the personality characteristics of a successful entrepreneur.*
3. *Bus is having a detrimental effect on the business. The buying of merchandise for each store is probably suffering since Bus has direct responsibility for this duty. However, the most serious effect is probably on the morale of employees in the business.*
4. *Bus can become a successful small businessman only if he works very hard at changing some of his personality characteristics. It might be too late for Bus, even if he is willing to change.*
5. *Mr. Grinder might be better off to look for someone else to take over the business, perhaps his daughter or a present employee. If he decides to stay with Bus, he most certainly should develop a plan for Bus' personal and management development. Bus must be aware of his development plan and agree to follow it completely. The first step would probably be to assign Bus duties and responsibilities which are not managerial, in order for him to learn the business from the bottom up.*

Worksheet for Decision-making

STEP 1	**Statement of Problem:**		
STEP 2	**Development of Alternative Solutions:**	Advantages	Disadvantages
	Alternative # 1		
	Alternative # 2		
	Alternative # 3		
	Alternative # 4		
STEP 3	**The Best Alternative Solution Is:**		
STEP 4	**Ways of Implementing the Solution:**		
STEP 5	**Ways of Evaluating the Solution:**		


Foodland
Hardware
Clothing
Furniture
Stereo
Gifts
Drugs

unit two

determining product and market

The business most likely to succeed is one which is based on a product or service that customers will pay for in sufficient volume to generate a profit. In order for a business to be successful and profitable, there must be an adequate market for its products or services.

Many small business failures can be traced to this problem of determining a product and market. The enthusiasm of the prospective entrepreneur can often cause him or her to overlook this most basic business premise. The basic purpose of a business is to satisfy customer needs and wants. Supplying goods and services which might sell is insufficient for success in business. Before entering into a business operation it is, therefore, essential to determine whether a market exists for specific products or services.

It is the purpose of this unit to discuss the elements of a market and identify some of the characteristics that should be known about the customers within a market. The student must realize that without a market, a business cannot possibly succeed.

Unit Objectives

- *To provide a definition for the term market.*
- *To provide students with the opportunity to determine potential business products and markets.*

Student Objectives

- *Given a specific business, the student will be able to explain those products and services that the business should be selling.*
- *Given the definition for a market, the student will be able to:*
  - *a) explain why a market does not include everyone within a geographic area.*
  - *b) identify the market for a particular product or service.*
  - *c) explain the effects of competition on the market.*
  - *d) list and explain at least five characteristics business owners and managers should know about their potential customers.*

I. What Is My Business?

A. In order to determine a market one must first determine a product. Many people fail because they attempt to do too many things with their businesses. As a result they do not give adequate attention to all of the activities necessary to be successful. Many businesses fail because the scope of the business is too broad.

- *The instructor should tell the class that they are to help list possible activities for a marina business. The list can be developed on the chalkboard. (Possible activities to be listed would include: boat sales, boat service, boat storage, parts sales, gasoline and oil sales, restaurant, tour guide service, gift shop, campground, etc.) After about five minutes an extensive list will have been developed. It should become apparent to the students that the business owner cannot possibly give adequate attention to all the possible facets of the marina business listed on the chalkboard. The list should then be reduced to the basic activities necessary to operate the marina business. It should be pointed out that the same situation is true for almost any business.*

- *Have students develop a list of the products or services their particular businesses will offer. The students should explain why each product or service is necessary to the success of the business. Have the students answer such questions as:* ***What do you buy? What do you sell? Which of your products or services yields the greatest profits? What products do your customers ask for that you don't have in stock?***

II. What Is a Market?

A. Every business sells some type of product or service to people. These people or potential customers can be described as:

1. People who **need or want** the product or service
2. People who are **able to buy** the product or service
3. People who are **willing to buy** the product or service

B. The market for a business is not comprised of all the people within a geographic area, but only those who need a product or service and are willing and able to buy it.

C. The competition must be considered. If competitors are serving the same market, one must decide if the market is large enough to support one's business as well as the competitors'. One should also determine how one's product or service is different from the competitors'.

III. What Should Be Known about Potential Customers?

A. **Know the customers.** The market can be segmented or divided into groups by considering such characteristics as:

1. Age
2. Sex
3. Marital and family status
4. Employment
5. Income
6. Trends in any of these characteristics

B. **Know what the customer wants.** By segmenting the market into groups, it is easier for business owners to determine what products or services each group wants or needs.

C. **Know where the customer buys.** Business owners need to find out where the customers in their market are buying now, and determine what factors will cause them to buy from their businesses.

D. **Know when the customer buys.** By knowing when customers buy (daily, weekly, monthly, yearly, seasonally), business owners will be able to determine such things as possible hours of operation, when to advertise, and quantity to have on hand at specific times.

E. **Know how the customer buys.** Knowing how the customer pays for products and services can help the owner determine a credit policy as well as a pricing policy for the business.

IV. Where Can Information Concerning Customer Behavior Be Found?

A. Trade associations (publications)

B. Chamber of Commerce

C. Government Agencies (U.S. Department of Commerce, Bureau of Census)

D. Business Periodicals such as *Business Week, The Wall Street Journal,* and *Advertising Age*

E. Individual research. Get out into the community. Look around and ask questions.

The two following activities are concerned with market analysis.

Activity #1

1. *Have the students make a market analysis of the local community by segmenting the potential customers into groups.*
2. *Have the students match products and services for these groups.*
3. *Once products and services have been matched with market groups, decide whether or not existing businesses in the local community are adequately meeting those customer needs and wants.*
4. *The results of the activity can be written on the chalkboard and discussed by the entire class. The activity can also be accomplished by dividing the class into groups, and having each group work independently.*

Activity #2

1. *Divide the class into groups of four or five members.*
2. *Each group must determine the needs and wants of the class as a market and determine what business would be successful in meeting the needs of the class. In effect, each group makes a market analysis of the entire class to determine what businesses would be successful. For example, one group might determine that a business selling school supplies would be successful. The easiest way to accomplish the market analysis might be to develop a questionnaire.*
3. *Suggested time allotment:*

   15 minutes to develop questionnaire

   15 minutes to distribute

   15 minutes to evaluate questionnaire and decide on business

   Remaining time for reporting to the class

Red Hots

John Robertson had a good business going. His place, Johnnie's Red Hots, was just a little way from an industrial park, and was also located on a busy north-south street. Johnnie's was a shack, not much bigger than a garage, and was not very attractive, inside or out. But Johnnie's was kept clean by Mr. Robertson, since he was dealing with food. People came mostly for his hot dogs. He steamed the buns until they were soft and warm; then spooned on chopped onions and pickle relish, and slopped mustard onto the hot dog. Finally, he crowned the whole sandwich with delicious, lightly salted french fries. He would then wrap the meal in what looked like tissue paper, only putting the hot dog in a brown paper bag if the customer said he or she was taking it out instead of eating it in a parked car. Johnnie's also handled several soft drinks and hot tamales. Of all his menu, the tamales were the least successful.

On the whole, Johnnie's did a good business. The main rushes were from 12 p.m. to 1 p.m. and again from 8 p.m. to 9 p.m. These rushes mainly consisted of various factory employees out on their lunch times — one was the daytime shift and the other was the late shift that worked until 12 a.m. People thought that thirty cents for a hot dog was not very much at all to pay, considering all they got for it, and that it was a fast way to be serviced, to eat, and to still have some free time before having to return to their jobs.

Around 1971, about 15 years after Johnnie's first opened, Mr. Robertson had a chance to buy some property and build a more modern place in which to do business. Mr. Robertson had always felt a little ashamed of the looks of his place and now he had a chance to do something about that feeling. He bought the land and decided to include in his new place an area for people to sit down and eat. He also decided to add a couple of items to the menu. He felt that a fancier place should have a fancier menu. Mr. Robertson knew that it would take most of the profits he had saved all these years to begin the new operation, but he decided to take the risk. One of the most costly items for the new building was the huge pizza oven he was having installed. The completion of the new building and the outfitting of it would take about two months. Mr. Robertson immediately put up large printed signs in the old place to let people know where the new place was to be and when service would begin.

After about a month at the new place, Mr. Robertson knew something was wrong. He was no longer having the volume of customers he used to have at the old place, especially at the rush times. He was worried that he might have over-extended himself by hiring a waitress to serve the hot dogs and the new line of pizza in the sit down area of the restaurant. He decided to keep his business open until midnight on weekdays and until two in the morning on weekends to try to make up for lost customers. He also decided to advertise in the local newspapers and on a local television station. He had never done this before, but now he felt it was necessary in order to help his business.

Mr. Robertson found out from some long-time customers why the flow of customers was reduced during the heavy lunch rushes. One thing was that he had inadvertently picked a site for his new building that, although not very distant from his old place, was on the other side of some railroad tracks from most of the factories. It seemed that the lunch rush times were exactly the times when the railroad did a lot of switching and coupling of cars to set up those trains that were hauling loads to other cities. The factory workers found themselves getting stuck at the crossings. This cut down on their free time that they were used to having for themselves. So, even though the hot dogs were good, most of them decided to patronize a little Italian beef stand closer to their factories and on the same side of the tracks. Also, some workers felt awkward walking into the new Johnnie's in their work clothes. They felt that they had to clean up to go there. That was alright sometimes, but inconvenient to do every day of the work week.

After about three months, Johnnie's was still in the red, although some customers had been picked up by keeping the place open later at night. But it seemed that it barely made up for the salary that he had to pay his waitress. Mr. Robertson raised his hot dogs to thirty-five cents in order to make up a little for the lack of business. He also decided to bring in some nightly entertainment, such as local rock groups and folk singers, to try to draw the customers. He spent a lot of money advertising these appearances each week. He was also considering applying for a liquor license. He thought that beer added to the menu would pick up the demand for the new line of pizza, and that people would begin to make more use of his sit down section.

He was beginning to daydream now of the uncomplicated times when he was at the old location. On the average, Mr. Robertson was putting in a twelve hour day. It was beginning to wear on him. He thought that it would be nice if he could hire a manager, at least part-time, for his place, but he didn't see how he could afford to do that now. He thought that perhaps in six months he could, when business picked up due to the new attractions he was offering.

Suggested Questions for Discussion:

1. What business is Johnnie really in now? Is it the same business he operated successfully for years prior to the move?
2. What market is Johnnie attempting to serve currently? Is it the same market his business served prior to the move?
3. Did Johnnie really know enough about his market and business to make the move?
4. What suggestions do you have for Johnnie and his business? Be specific.

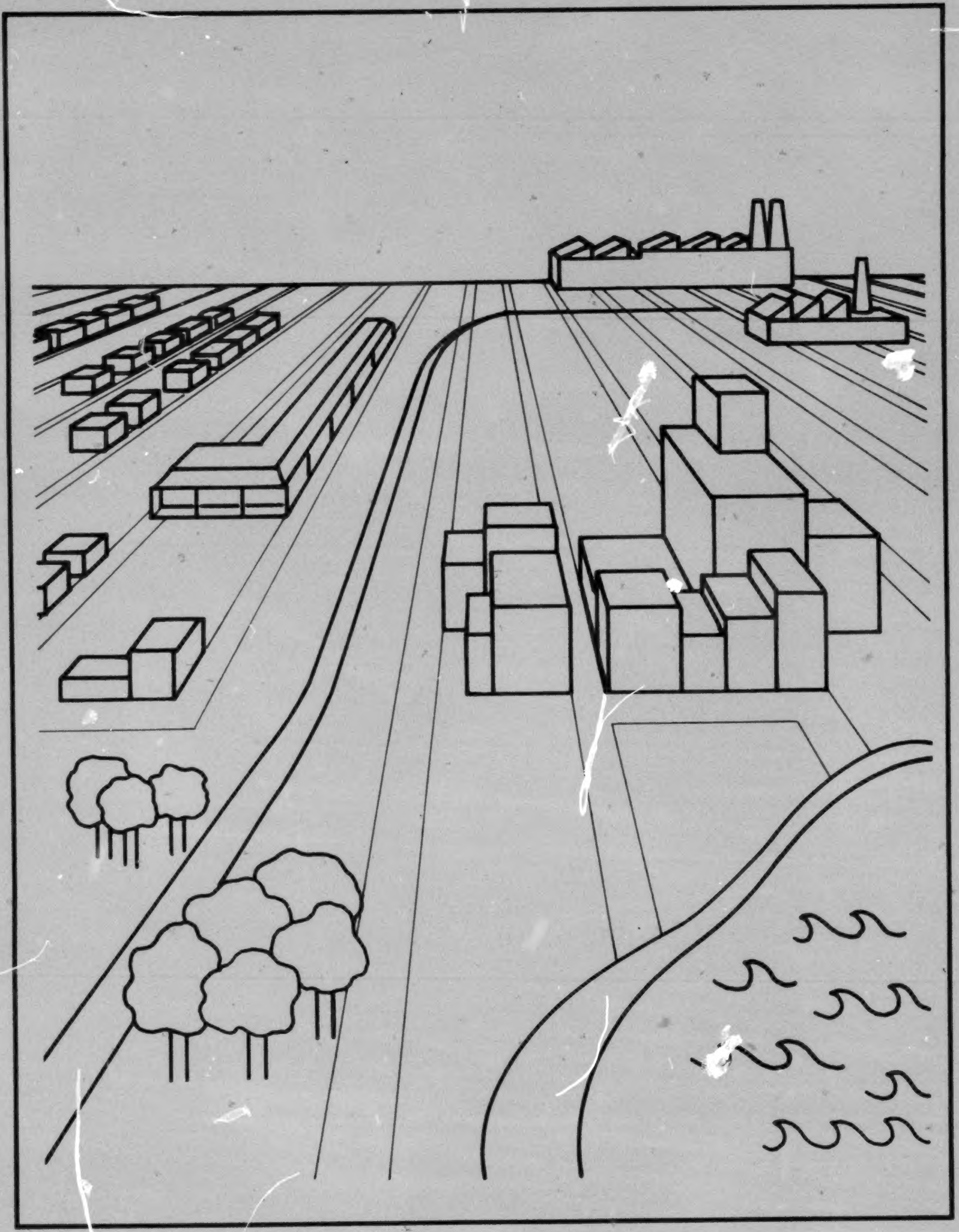
(cover copy below when xeroxing case)

Points To Be Highlighted by the Case:

1. *In order to be successful the owner/manager must determine what business he or she is really in, and not attempt to do too many things.*
2. *A business must be aware of its particular market and be able to meet those people's needs and wants.*

Possible Solution:

1. *Prior to the move, Johnnie was operating a successful, but simple, hot dog stand. He is currently attempting to operate a restaurant. In fact, Johnnie seems to be entering into the entertainment business as well as the restaurant business.*
2. *Prior to the move, Johnnie's market was primarily limited to the factory workers who were on their lunch break. As a result of the move, Johnnie has lost this market and is attempting to identify a new market. The nightly entertainment, consisting of rock music groups might serve a young market.*
3. *Apparently Johnnie had given little thought to the market he was serving. If he had known why his customers were buying his particular product, he probably would not have made the move to the new location.*
4. *There are several suggestions which could be made to Johnnie. If possible he could sell the new business and move back to the old location. Another suggestion might be to take his product to the factory workers. For example, he could sell hot dogs to the workers at the factory from a truck or van. Another suggestion would be to identify a new market and serve their needs and wants with the new business.*



unit three
selecting the location

Selecting the business location is one of several factors which is vitally important to the success or failure of a small business. The location is one of the primary initial concerns of the small business owner/manager.

It is essential that the enterprise begin operation at a location which offers the probability for success. In many instances, the small business owner/manager looks no further than the nearest vacancy sign for the location of the business. To increase the chances that the business will be successful, it is imperative that considerable thought and research be given to the problem of selecting a location. Sound managerial decisions in the area of business location are extremely important. Students need the required information and necessary skills to make sound management decisions regarding the selection of a location for the business. It should be emphasized that although a good location may allow a mediocre business to survive, a bad location may spell doom for even the best planned business.

Although this unit deals with the initial selection of a business location, the students should be aware that analysis of the location should be a continuous process throughout the life of the business. Such factors as changing populations, changing customer buying habits, new methods of transportation, and the direction of community growth can adversely affect the suitability of the business location.

There are two basic aspects of selecting a location for a business: (1) deciding on the particular community, and (2) selecting a particular site within that community. The content and suggested activities within this unit are designed to help the instructor prepare the students to make vital decisions concerning the location of a business in a manner which will start the business on the way to a successful and profitable future.

Unit Objectives

- *To present major points to be considered when selecting a good location for a successful small business.*
- *To provide guidelines for selecting a specific site for the small business.*

Student Objectives

- *Given various methods by which small business owners and managers commonly select their locations, the student will be able to explain why or why not these methods are sound.*
- *Given various factors to be considered when deciding on a particular community for a business location, the student will be able to list and explain at least three reasons for deciding on a particular community for a particular business.*
- *Given various guidelines for making a market analysis, the student will be able to analyze the location by identifying three economic characteristics of the community and at least four demographic characteristics of the potential customers.*
- *Given the information necessary to analyze the market competition, the student will be able to make a list of at least five ways to determine the strength of his or her competitors.*
- *Given guidelines for selecting a particular site within the community, the student will be able to list and explain at least eight factors to be considered when selecting a particular site.*

I. Why Is the Location Important?

A. A good location is necessary for the success of most businesses. The Small Business Administration indicates that only 3% of business failures are directly attributed to a poor location. But, a poor location can be the primary reason for the failure of an otherwise excellent business.

- *Have students either respond verbally (in a class discussion) or write a short paper either defending or rejecting the following statement:* ***Location is not important because people will go out of their way for a good service or product that they really want.***

II. How Should the Location Be Selected?

A. Many small business owners and managers select their location by using one of the following methods:

1. Notice vacancy sign
2. Information from friends, relatives, etc.
3. Advertisement

B. Before using any of the above methods for selecting a business location, the owner/manager must be aware of the nature of the business, determine the product or service to be offered, and identify the market to be served by the business. Once this process is completed, almost any method for selecting the actual site will suffice.

III. What Factors Should Be Considered when Deciding on the Particular Community?

A. The decision to locate in a town, city, or suburban area

1. The nature of the business
2. Personal preferences of the owner/manager
3. Transportation and access to the business by the owner/manager and the potential customers
4. Quality of competitors' products
5. Services performed by competitors

B. Information regarding the economic conditions of the area, the demographic characteristics of the market population, and the strength of the potential competition can be obtained from the following sources:

1. The local chamber of commerce can offer first-hand information regarding local business conditions and trends.
2. The Bureau of the Census compiles data regarding the demographic characteristics of the market population. This data is available at most public libraries.
3. The Bureau of the Census publishes the Census of Business which contains information on the wholesale, retail, and service trades. By pursuing business census figures the market and competition can be analyzed. This publication is also available at most public libraries.
4. The Department of Commerce issues statistics on growth and expansion trends for various communities and geographical areas in the United States.

- *Have students divide into groups. Have each group select a business within the local community and develop a list of characteristics of the types of customers who patronize the business. Compare and discuss each group's list. Having selected a particular type of business, each student group will analyze the competition it faces. The analysis should include number of competitors, their size and financial strength, whether the market can support another similar business, quality of products and services offered, and what extra services are offered.*

IV. What Factors Should Be Considered when Selecting a Particular Site within the Community?

A. **Buying or leasing** the site

1. Advantages of leasing the site include:
    a. The initial capital required to establish the business is greatly reduced.
    b. Available capital can be used for operation of the business.
    c. Major maintenance costs may be paid by the landlord. (The owner/manager should be aware of any hidden costs in a lease such as damage repair, maintenance, etc.)

   d. The owner/manager can elect not to renew the lease, enabling he or she to leave the location without sustaining a loss. (For example, if the neighborhood depreciates rapidly.)

2. Advantages of owning the site include:
   a. Appreciation of the building (if there is any) belongs to the owner.
   b. Any desired changes or alteration of the building can be made.
   c. There is no danger of not being able to renew the lease.

B. **Traffic**
   1. Pedestrian
   2. Auto
   3. Flow — where is the traffic going and does it ever stop

C. **Accessibility** for potential customers
   1. Parking
   2. Roads, streets, public transportation

D. **Location** of competitors and other businesses
   1. Locating too far from the competition can be a problem. It does not allow for comparison shopping by potential customers. For example, people tend to shop for used cars at a "used car row."
   2. In many cases it is desirable to locate near complimentary businesses in order to draw potential customers. An example would be a drug store locating next to a supermarket.

E. **The layout** of the business must be suitable for the product and operation
   1. Floor strength and appearance
   2. Ceiling height and appearance
   3. Floor space—selling and non-selling
   4. Expansion possibilities
   5. Visibility to potential customers
   6. Accessibility for deliveries
   7. Image reflected by building
   8. Any facilities that are necessary for a particular business

F. **Taxes, local ordinances, and zoning laws** must be considered

- *Have students who have selected similar types of businesses develop a comprehensive list of physical characteristics of a site which are essential to the operation of that particular type of business. Have them develop an additional list of characteristics which would be desirable, but are not essential. Discussion of the lists might focus on costs involved in obtaining a site with those characteristics and the expected gain or return for each characteristic.*

- *Have students select an established business within the community and analyze its location with regard to the information presented in class.*

- *Require each student to select a location for establishment of a business within a local area. The student must demonstrate in written form that a sound management decision based on research has been made, and defend the location in class.*

Quality Men's Wear

Jack Smith has just received notice that the building his store occupies will be torn down in three months, and he must move by that time. Mr. Smith owns a clothing store which handles quality merchandise. The store is located on the busiest street in the downtown area of a town of 12,000 people. His business grosses $200,000. a year, which nets him a fairly large profit.

He currently operates with two employees and his wife, who does the office and paper work for the store. His store is presently located on the same street as a bank, a savings and loan, and a department store, all of which create foot traffic past his store. Parking is somewhat of a problem at his present location. There is limited parking for the bank and department store, and the bulk of the remaining parking is diagonal street parking with parking meters.

The store itself has large outside windows which allow for more than adequate display area for window shoppers. The selling area is approximately 70 feet wide by 80 feet long with 12 foot ceilings. The merchandise is displayed both in open areas and in display cases (closed areas). There is a large display case at the entrance to the store which forces the customers to go to the right where shirts and ties are located or to the left where shoes are displayed. The pants, sweaters, suits, and sport coats are at the rear and sides of the store.

The year's heating and air conditioning costs for the store are approximately $375. per month for oil heat and $250. per month for electric and air conditioning. The 12 foot ceilings have contributed to the inflated expenses for heating and cooling the store.

Mr. Smith has three months to select a site and develop the site into a usable and attractive store. There are four acceptable sites available to Mr. Smith. Three of the sites are located in town and one is available in a new shopping mall on the outskirts of a neighboring town approximately a mile south of the interstate highway. Two of the sites in town are for sale, but the mall site and one of the downtown sites are available on a lease only arrangement.

Site "A" is located one block east from Mr. Smith's present location on the corner of the intersection of the major east and west street and the main north and south road through town. This site has approximately the same square footage as his current store. The site is available on a lease only arrangement at three dollars per square foot per year. Parking availability is about the same as the current site, but foot traffic is less. The other three corners contain a car sales room, a vacant building, and the state unemployment office. The store has been recently remodeled.

Site "B" is located on a corner a block west of Mr. Smith's current store. The building is for sale. A small parking lot at the rear of the building is included in the sale price. The purchase price is $50,000. Foot traffic is less than at his current site, but greater than at site "A". The other three corners include a movie theatre, a tire store, and an office building with meeting and rental halls. The interior of the building is in disrepair, and would require $10,000. to remodel. Also, this site has about 60% of the total square footage of his current location.

Site "C" is located on a corner four blocks west of the current site. This building is for sale for $35,000. Parking here is more than adequate with an off street parking lot available across the street. The store is one block away from the main downtown shopping area in a lower rental district. The foot traffic is far below the traffic at sites "A" and "B". The store at site "C" is in need of remodeling, and estimated costs reach $15,000. In addition to the parking lot across the street, there is vacant property on one corner, and a discount appliance store on the remaining corner. The square footage at site "C" is about the same as that of Mr. Smith's current location.

Site "D" is located in the shopping mall. This site is not for sale, but leases for six to fifteen dollars per square foot per year. Parking here is more than adequate. All of the current shops in the mall carry middle to high quality merchandise. The foot traffic is greatest at the higher rental areas. Each site in the mall must develop its own interior. The cost of this development would be approximately $30,000. The foot traffic at any store in the mall would be greater than the traffic at site "A", "B", or "C", but less than the traffic at Mr. Smith's current site. Mr. Smith can have his choice of square footage at the mall.

Mr. Smith needs to make a decision on the move quickly since he has only three months to complete the move.

Suggested Questions for Discussion:

1. Which site do you think Mr. Smith should select? Give reasons for your choice, including advantages and disadvantages of all the sites, to defend your selection.

(cover copy below when xeroxing case)

Points To Be Highlighted by the Case:

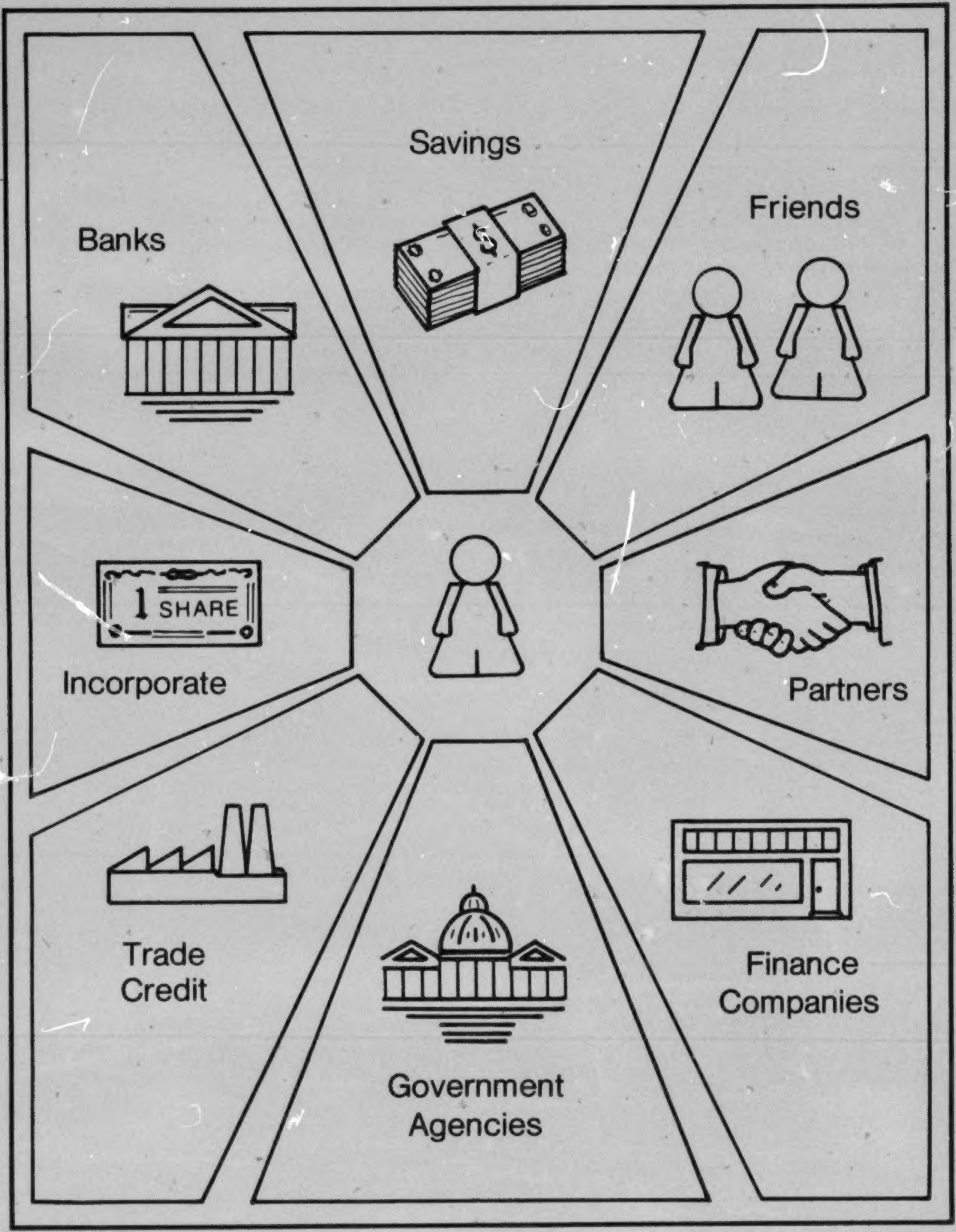
1. *The business location should be considered carefully. Consideration should be given to the market served, cost of the location, traffic patterns, accessibility, location of competitors, surroundings, and the physical advantages and disadvantages of the building.*

Possible Solution:

1. *This case offers an excellent opportunity for the students to use the "worksheet for decision-making" which can be found at the end of unit one. It is recommended that the students list advantages and disadvantages for each of the four sites before making a decision.*

   There is no one "right" answer to this case. Any selection should be based on decisions made regarding the following major considerations:

   a.) Advantages and disadvantages of owning or leasing the site.
   b.) Cost of owning or leasing each site.
   c.) Status of the neighborhood, including surrounding businesses for each site.
   d.) Parking facilities at each site.
   e.) Accessibility for potential customers for each site.
   f.) Physical layout of each site, including appearance and space.
   g.) Expansion possibilities at each site.
   h.) Amount of traffic at each site.


Savings
Banks
Friends
1 SHARE
Incorporate
Partners
Trade
Credit
Finance
Companies
Government
Agencies

unit four
obtaining initial capital

Many prospective small business owners and managers have promising business ideas and plans. However, they may discover that the capital necessary to initiate their plans is not readily available. As a result, many prospective small enterprises never become operational.

The instructor of small business ownership and management should make the students aware of the types of funds which are available to the prospective business owner. It should be emphasized that sound preparation and planning will increase the probability of successfully obtaining the needed capital.

The days of opening a business with five dollars in the cash drawer and a sincere desire to succeed are gone forever. In addition to a sincere desire to succeed and a willingness to work, the economics of today's business world require sound and thorough capital planning by the prospective entrepreneur. The small business owner will almost certainly have to invest a sizable amount of personal money in the business. However, much of the capital needed to begin operation of a business can be obtained through credit or debt financing.

This unit will identify potential sources for obtaining initial capital, and will offer suggestions regarding the necessary preparations for obtaining debt or credit financing.

Unit Objectives

- *To explain the difference between equity and credit or debt financing of a business.*

- *To provide students with information regarding sources and procedures for financing a business.*

Student Objectives

- *Given a particular business, the student will be able to:*
  - a. *Explain why the business owner/manager will more than likely need to invest personal funds in the business.*
  - b. *Explain the difference between equity and credit or debt financing.*
  - c. *List four possible sources for obtaining equity capital.*
  - d. *List four possible sources for obtaining credit or debt financing.*
  - e. *List and explain the four C's of credit.*
  - f. *Prepare a presentation to be made to a banker for the purpose of obtaining a small business loan. This presentation will include personal background information, a description of the business, and a projected sales forecast and expense summary.*

I. Can All of the Needed Capital Be Borrowed?

A. Almost any lending institution will require that the entrepreneur put up a substantial amount of the money needed to initiate the business. In many cases the borrower will have to match the amount of money he or she is attempting to borrow. This depends to a great extent on the market and economic conditions. Very few reputable institutions or individuals will be willing to risk their money on a venture if they see that the owner has none of his or her own money invested in the firm.

B. The money that the owner puts into the business is called equity capital. It is the owner's investment in the business. Borrowing needed capital is called credit or debt financing.

C. The lender must be able to sense a personal commitment and involvement by the business owner. This personal commitment includes time, energy, and money that the owner is willing to contribute to the business.

- *Have the students relate their own experiences regarding the use of a co-signer to obtain a small loan; as, for example, when they obtained their first automobile loan.*

- *Ask the students to list what they would require of a borrower before they would lend money for a business venture. This list can be written on the chalkboard and discussed by the class. Additions to the list can be made as the class discussion progresses.*

II. Where Can Equity Capital Be Obtained?

A. Personal savings

B. Friends and relatives

C. Partners. It is possible for the owner to form a partnership with one or more individuals in order to obtain enough equity capital to initiate the business.

D. Incorporate. It is possible to incorporate the business and sell stock in order to raise equity capital.

- *Have the students react to the idea of borrowing money from friends and relatives. Although it is a source of equity capital, the borrower should be aware of possible problems, and regard the loan as any other business transaction.*

III. Where Can Credit or Debt Financing Be Obtained?

A. Banks

B. Finance companies

C. Government agencies

1. The Small Business Administration. The SBA may guarantee a loan made by a bank to a small business owner/manager. Before any guarantee is made, the SBA requires that the loan application be turned down by two or three banks. Proper forms must be filed and the processing time can be several months. Further information can be obtained by contacting the nearest SBA field office.
2. Small Business Investment Companies. SBICs are licensed by the Small Business Administration but are privately organized and managed firms. Although SBICs usually prefer to buy stock in a company, long-term credit financing is available. Further information regarding SBICs can be obtained by writing the National Association of Small Business Investment Companies, 512 Washington Building, Washington, D.C. 20005.

D. Trade credit. Suppliers extending credit terms for equipment, inventory, etc. allows the business to begin generating sales before payment is due.

IV. How Can the Chances of Obtaining a Loan Be Increased?

A. The small business owner/manager cannot be sure of obtaining a loan, but it is certain that if he or she is prepared when going to a lending institution, the chances are much greater that the loan will be obtained.

B. A banker or loan officer will take into consideration the four C's of credit when evaluating an applicant and considering the loan:

1. **Character:** The applicant's attitude toward credit will be examined, including his or her past record of meeting obligations.
2. **Capacity:** The applicant's income will be examined to determine his or her ability to pay back the loan.
3. **Capital:** The applicant's personal worth will be examined including savings and any other personal or real property.
4. **Conditions:** The economic conditions of the

community, state, and region will have an effect on the availability of a loan.

C. The prospective business owner should demonstrate that he or she has a business strategy or plan of action which will lead to success.

D. The lender will want to be sure that the prospective business owner has experience or knowledge in the area of the proposed business.

E. Whether attempting to raise equity capital or obtain credit financing, it is essential that a well researched and realistic plan be presented.

- *Invite a local banker who specializes in small business loans to make a presentation to the class regarding how a potential borrower is evaluated. The students will find this extremely practical and valuable information. The local banker is one guest speaker that should definitely be included in the course. The banker's expertise will provide the realism that will add greatly to classroom instruction.*

- *The instructor might obtain copies of loan applications from a local bank to be given to the students. This will give the students an opportunity to determine exactly what a lending institution is concerned with when evaluating an applicant.*

- *Have students react verbally to the importance of the four C's of credit. The class discussion should emphasize the importance of the four C's of credit to the success of a business.*

- *Have students develop a list of items to be included in a business plan that is to be submitted to a banker for consideration when attempting to obtain a loan. Discussion may be followed by having the students rate the importance of each of the items.*

V. What Should Be Included in the Business Plan?

A. Personal background information including experience in the field of the proposed business.

B. Business description including products or services to be offered, and desired location.

C. Analysis of the market to be served.

D. Analysis of the existing competition including the estimated market share.

E. The strategy for success.

F. Projected financial statements including a sales forecast and expense summary.

Projected Sales Forecast and Expense Summary

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
Net Sales	___	___	___	___	___	___	___	___	___	___	___	___	___
Cost of Goods Sold	___	___	___	___	___	___	___	___	___	___	___	___	___
Gross Profit	___	___	___	___	___	___	___	___	___	___	___	___	___
Salary Expense:													
Owner	___	___	___	___	___	___	___	___	___	___	___	___	___
Employees	___	___	___	___	___	___	___	___	___	___	___	___	___
Other Expenses:													
Supplies	___	___	___	___	___	___	___	___	___	___	___	___	___
Advertising	___	___	___	___	___	___	___	___	___	___	___	___	___
Telephone	___	___	___	___	___	___	___	___	___	___	___	___	___
Delivery	___	___	___	___	___	___	___	___	___	___	___	___	___
Rent	___	___	___	___	___	___	___	___	___	___	___	___	___
Utilities	___	___	___	___	___	___	___	___	___	___	___	___	___
Insurance	___	___	___	___	___	___	___	___	___	___	___	___	___
Maintenance	___	___	___	___	___	___	___	___	___	___	___	___	___
Miscellaneous	___	___	___	___	___	___	___	___	___	___	___	___	___
Taxes	___	___	___	___	___	___	___	___	___	___	___	___	___
Total Expenses	___	___	___	___	___	___	___	___	___	___	___	___	___
Net Profit	___	___	___	___	___	___	___	___	___	___	___	___	___

- *Have groups of students develop business plans to be presented to a banker for the purpose of obtaining a loan. These business plans should be presented in class. The other students or the instructor act as the banker and evaluate each presentation. (Students should be aware that the sales forecast and expense summary is compiled on a cash basis only. The figures should be as realistic as possible. The intent of the sales forecast and expense summary is to acquaint the students with a financial statement. The instructor should emphasize that more accurate figures would come as a result of research and would depend on the particular type of business. More sophisticated financial statements will be introduced in unit eight, Financial Management.)*

Self-image

Achievement

The Loan Officer

Assume you are the loan officer at a local commercial bank. You were recently approached by the following people requesting business loans. An interview was conducted with each applicant.

Interview #1

A group of three nicely dressed young men in their late twenties have asked you for a loan of $100,000 to finance a production operation involving electrical components. The men are very articulate and have prepared a very thorough and well planned presentation for you. It had been sent to you a day or two ahead of time for your inspection. As you begin to discuss the proposition it becomes clear that the three individuals are not planning to put up any of their own money to finance the operation. The business plan shows an increase in salary for each individual over what they are earning at their current jobs. There is also a rental car for each individual included in the budget.

Interview #2

An overweight, middle-aged man has come to see you seeking a loan of $10,000 to establish an office equipment and supply store. His appearance leaves quite a lot to be desired since his shoes are unshined and his clothes wrinkled. As he sits down to discuss the proposition, he pulls out a small piece of note paper on which the entire proposition is written. He begins by telling you something about himself, his family, and his current job as a salesman at an office supply store. He explains that by cutting corners on his family budget, and adding that money to his savings he can match the $10,000 loan. This will give him the $20,000 needed to finance the business. He further explains that both you and he will need to set up a schedule for repayment of the loan according to business profits.

Interview #3

A man in his late thirties enters your office with a proposal to establish a television and radio repair shop. He begins by telling you that he has twenty years experience in the television and radio repair business. He is currently the manager of the service department at a large electronics store across town. During his presentation it becomes clear that the man has the technical knowledge and experience necessary to run the business. He is asking for a loan of $30,000 to initiate the business, but only has $6,000 of his own to invest.

Interview #4

A young man who is currently a school teacher has come to see you regarding a loan of $25,000 to establish a French restaurant in town. He is willing to invest $25,000 of his own money which he has saved over the past several years. While he is making his presentation it becomes clear that he knows very little about the restaurant business. In fact, when you asked him if he knew the recipe for a French dinner he had no idea of how to make it. He concluded his presentation by claiming that although he did not know anything about French cooking or running a restaurant, he would hire people who did to insure the success of the business.

Interview #5

Two women have come to your office with a proposition to establish a recycling business for drums containing chemical fertilizer. They are asking you for $50,000 to finance the business and are able to invest $20,000 of their own money. The women explain to you during their presentation that virtually all fertilizer plants have to either haul these drums to a land fill or hire someone to haul them away. They explain that it is too expensive to ship the empties back to the supplier since the shipping costs exceed their value. The women further explain that they have taken samples of the drums to a chemist for analysis. The analysis revealed that the drums are made of a high grade steel which can be easily reduced to reusable steel. They have made arrangements to obtain the drums from the fertilizer plants at no cost. Dollar figures for obtaining the necessary equipment are also presented.

Suggested Questions for Discussion:

1. To which applicants would you grant loans if you had to make the decisions? Formulate and list reasons for approving or disapproving each particular loan.

(cover copy below when xeroxing case)

Points To Be Highlighted by the Case:

1. *A lending institution will evaluate an applicant for a business loan with regard to:*
    - *a. Personal commitment and involvement.*
    - *b. A business strategy or plan of action.*
    - *c. Experience in the area of the proposed business.*
    - *d. Financial planning to include how the loan will be paid back.*
    - *e. Personal background information, including character, capacity, and capital.*

Possible Solution:

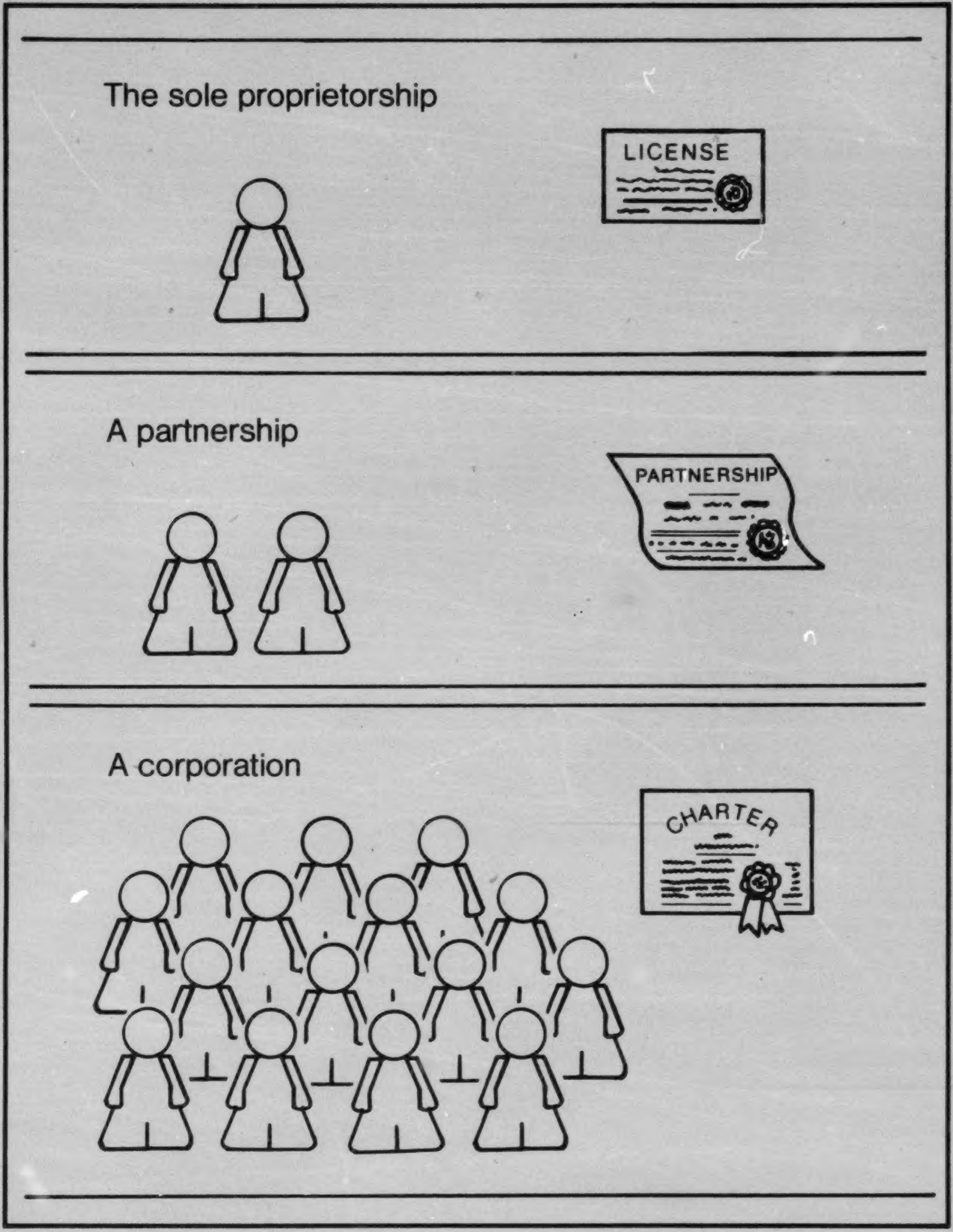
Interview #1: *Disapprove loan—no personal commitment.*

Interview #2: *Approve loan—personal commitment and experience.*

Interview #3: *Disapprove loan—not enough personal money invested; ask him to raise more equity capital.*

Interview #4: *Disapprove loan—no experience or knowledge of field.*

Interview #5: *Approve loan—personal commitment and business strategy.*



The sole proprietorship
LICENSE
A partnership
PARTNERSHIP
A corporation
CHARTER

unit five

choosing the legal form of organization

One of the first decisions the owner of a small business must make is to determine the form of legal organization of the enterprise. However, this initial decision may not be final. Not only will the business grow and alter its operation over time, but financial and tax situations may modify the advantages and disadvantages of the various legal forms of organization.

The vast majority of all the business firms in the United States are organized as one of three legal forms. They are the sole proprietorship, the partnership, and the corporation.

The business owner should have a basic knowledge of the legal forms of organization available to the business, and should be aware of the relative advantages and disadvantages of each form of organization. Competent legal advice should be obtained when deciding which legal form to adopt.

This unit will identify the advantages and disadvantages of each of the three basic forms of legal organization with regard to six areas of concern to the small business: (1) legal costs and procedures necessary for starting the business, (2) liability of the owner(s), (3) continuity of the business, (4) management of the business, (5) acquiring additional capital, and (6) taxation.

Unit Objectives

- *To provide information regarding the differences between a sole proprietorship, a partnership, and a corporation.*
- *To present major points to be considered when selecting the legal form of organization for a business.*

Student Objectives

- *Given adequate information, the student will be able to explain the basic structural differences between the sole proprietorship, partnership, and corporation.*
- *Given adequate information concerning the sole proprietorship, the partnership, and the corporation, the student will be able to:*
  - *a. Explain the legal costs and procedures necessary for starting a business for each of the three basic forms of legal organization.*
  - *b. Explain the differences in liability for the owner(s) depending on the legal form of organization adopted.*
  - *c. Explain how the continuity of a business is dependent on the legal form of organization adopted.*
  - *d. List and explain at least one advantage and one disadvantage regarding management for each of the three basic forms of legal organization.*
  - *e. Explain why the legal form of organization of the business could make a difference in obtaining additional capital.*
  - *f. Explain how the legal form of organization will affect the taxes which the business must pay.*
- *Given a particular business, the student will be able to identify four reasons for selecting a particular form of legal organization.*

I. How Many Owners Are There in a Sole Proprietorship, a Partnership and a Corporation?

A. The sole proprietorship has only one owner.

B. A partnership has two or more co-owners.

C. A corporation is an association of stockholders or owners chartered by the state. The corporation has the authority to transact business in the same manner as one person.

• *Have students identify businesses within the community which are examples of a sole proprietorship, a partnership, and a corporation. The instructor should also be prepared to give examples.*

II. Are the Legal Costs and Procedures for Starting All Three Types of Organizations the Same?

A. **Sole proprietorship.** When starting a sole proprietorship the only requirements are to determine if a license is required for the particular business, and if a state tax or license fee must be paid. Because of the limited restrictions, the sole proprietorship is the easiest to start, and the initial costs are usually low.

B. **Partnership.** The cost of organizing a partnership is usually low. In addition to any necessary licenses, it is recommended that a partnership agreement, called the articles of partnership, be in writing and prepared by a competent attorney. The articles of partnership should contain at least the following provisions:

1. division of profit or loss
2. compensation to each partner
3. distribution of assets in the event of dissolution
4. duration of partnership
5. duties of each partner

C. **Corporation.** The corporation is more complicated to form than the other two types of organizations and is usually more costly. Legal procedures of the state in which the corporation is being formed must be followed strictly. The officials of the corporation must file a special document called the "articles of incorporation" with the state, pay initial tax and filing fees, and hold official meetings to deal with specific details of operation and organization.

D. There are other less common forms of legal organization, such as the subchapter S corporation, the business trust, the partnership association, and the joint stock company, available to the small business. Although most businesses are organized as a sole proprietorship, partnership, or corporation, all forms of legal organization should be discussed with a competent attorney before any decision regarding which form to select is made. The attorney will need to know as much about the business and its owner(s) as possible, including the personal financial position of the owner(s), so that a sound recommendation can be made.

• *Divide the class into small groups for the purpose of preparing a partnership agreement. The students in each group represent partners in a hypothetical business of their choice. Discussion of the various items included in each agreement should follow. In discussing each partnership agreement, important items which should be included in most partnership agreements might be written on the chalkboard.*

III. What Is the Liability of the Owner(s)?

A. **Sole proprietorship.** A single proprietor is personally liable for all debts of the business. If necessary, this liability includes all of the proprietor's personal property and assets.

B. **Partnership.** Each member of a general partnership is fully liable for all debts owed by the business regardless of their personal investment in the business and includes all personal property and assets. Each partner is also responsible for and liable for the acts of the other partners with regard to business obligations.

Limited partnership. Limited partners are liable only for the amount of their investment, but they may not take part in any management activities. A limited partnership must have at least one general partner.

C. **Corporation.** The stockholders, or owners, of a corporation are liable only for the amount of their investment. While stockholders may lose the money they invest in the business, they cannot be forced to pay corporation debts with additional money from personal funds.

IV. How Does the Legal Organization Affect Continuity of the Business?

A. **Sole proprietorship.** The business is terminated by the death or incapacity of the owner.

B. **Partnership.** The partnership is terminated by the death, incapacity, or withdrawal of any one of the partners, unless the articles of partnership state that surviving partners can continue the business after buying the deceased's interest from his or her estate.

C. **Corporation.** Corporations have a separate and continuous life of their own, and do not dissolve if a stockholder dies or sells the stock to another person.

V. How Does the Legal Structure Affect Management of the Business?

A. **Sole proprietorship.** In a sole proprietorship there is only one boss. He or she may operate the business in any way desired as long as the law is not broken. However, all management decisions are made by one person which can be a decided disadvantage.

B. **Partnership.** In a general partnership each partner typically has an equal role in management with the various duties divided among them. Their combined abilities and knowledge may give the partnership an advantage over the sole proprietorship regarding management, although the division of management duties may lead to disagreements.

C. **Corporation.** The corporation is usually in the best position to obtain additional capital. In addition to pledging corporate assets as collateral, a corporation may sell additional stock in the company to raise funds.

VII. How Will the Legal Structure Affect Taxes?

A. **Sole proprietorship.** Personal income tax must be paid on the entire business profit.

B. **Partnership.** Personal income tax must be paid by all partners on their individual share of the business profit.

C. **Corporation.** The corporation is taxed twice. The first tax is on the amount of the business profit. The owners are also taxed on any dividends they may receive.

- *Invite a local attorney who specializes in business law, and is currently being retained by small businesses in the community, to speak to the class regarding the importance of adopting the proper form of legal organization. The presentation could be expanded to include any legal considerations of which the small business owner should be aware, such as local ordinances and zoning laws.*

- *The instructor may use the overhead projector to illustrate the advantages and disadvantages of the sole proprietorship, the partnership, and the corporation listed on the following page. Copies of the following page may be given to the students as a study guide.*

VIII. What Is a Franchise?

A. A franchise is not an additional legal form, but a form of distribution spanning all three forms.

B. A franchise business offers an individual the opportunity to begin a business which has already established a widely known product image. Commonly known franchises include: McDonalds, Pizza Hut, etc.

C. The franchisee usually owns the business and assumes operating responsibilities which are subject to certain specifications by the franchisor.

D. Advantages of franchising may include the following:

1. Training and guidance
2. Established goodwill and image of the business
3. Proven products and methods
4. Possible financial assistance

E. Disadvantages of franchising include the following:

1. The franchise fees are often high
2. A loss of independence through the franchise agreement

F. Any franchise opportunity should be carefully investigated. One source available to the prospective franchisee is *Franchise Company Data,* which can be obtained free from Sales and Distribution, U.S. Department of Commerce, Washington, D.C., 20230. This publication offers valuable information concerning various types of franchise operations detailing what is expected of the franchisee and what the franchise operation can offer. Before entering into any franchise agreement an attorney should be consulted.

Deciding on the Legal Form for a Business

Sole Proprietorship	Partnership	Corporation
Advantages:	**Advantages:**	**Advantages:**
1. low start-up costs	1. low start-up costs	1. limited liability
2. owner in direct control	2. broader management base	2. possibly specialized management
3. all profits to owner	3. possibly better able to obtain additional capital than sole proprietorship	3. continuous existence
4. possible tax advantage	4. possible tax advantage	4. possible tax advantage
	5. losses divided	5. possibly easier to raise additional capital
Disadvantages:	**Disadvantages:**	**Disadvantages:**
1. unlimited liability	1. unlimited liability	1. closely regulated
2. lack of continuity	2. lack of continuity	2. extensive recordkeeping
3. difficult to raise additional capital	3. profits divided	3. usually most expensive to start
4. limited management	4. hard to find suitable partners	4. double taxation
5. all losses to owner	5. divided authority and control	

The Good Deal

Mr. Stevens has owned and operated a service station at one of the best locations in town for almost ten years as a sole proprietor. The business has been very profitable and has allowed him to save almost $30,000 over that time. Thanks to the insistence of his wife, he has also paid off the mortgage on their home.

Mr. Stevens has been looking for a way to expand the business in order to make more profit, but there is no available land adjacent to his business. He is somewhat apprehensive about operating two service stations in two separate locations. He enjoys making independent decisions and feels that his presence at the station has been the key to his business success.

A business acquaintance, Mr. Simpson, approached Mr. Stevens this morning about the possibility of forming a partnership. Mr. Simpson owns and operates two fairly successful service stations on the other side of town. He has managed them for one year since his father retired and left the business. During the past year profits have been dwindling. Mr. Simpson believes this is a result of his poor management, since the two stations have been profitable for years under his father's management. Together, Mrs. Simpson's two stations are worth almost three times the value of Mr. Steven's business. Mr. Simpson is aware of this but is willing to make the new partnership a fifty-fifty arrangement. They would share all profits and each would own one half of the business.

Mr. Stevens has told Mr. Simpson that he would think it over, and is going home to discuss the proposition with his wife. Although it sounded like a good business opportunity on the surface, Mr. Stevens wants to be sure that he would not be making a mistake by accepting the offer. He knows Mr. Simpson is not a very good businessman but, still, he would like to take advantage of the offer.

Suggested Questions for Discussion:

1. What considerations should Mr. Stevens evaluate in making the decision?
2. What should Mr. Stevens include in the articles of partnership?
3. Should Mr. Stevens accept Mr. Simpson's offer? Make two separate lists of reasons for accepting and for rejecting the offer.

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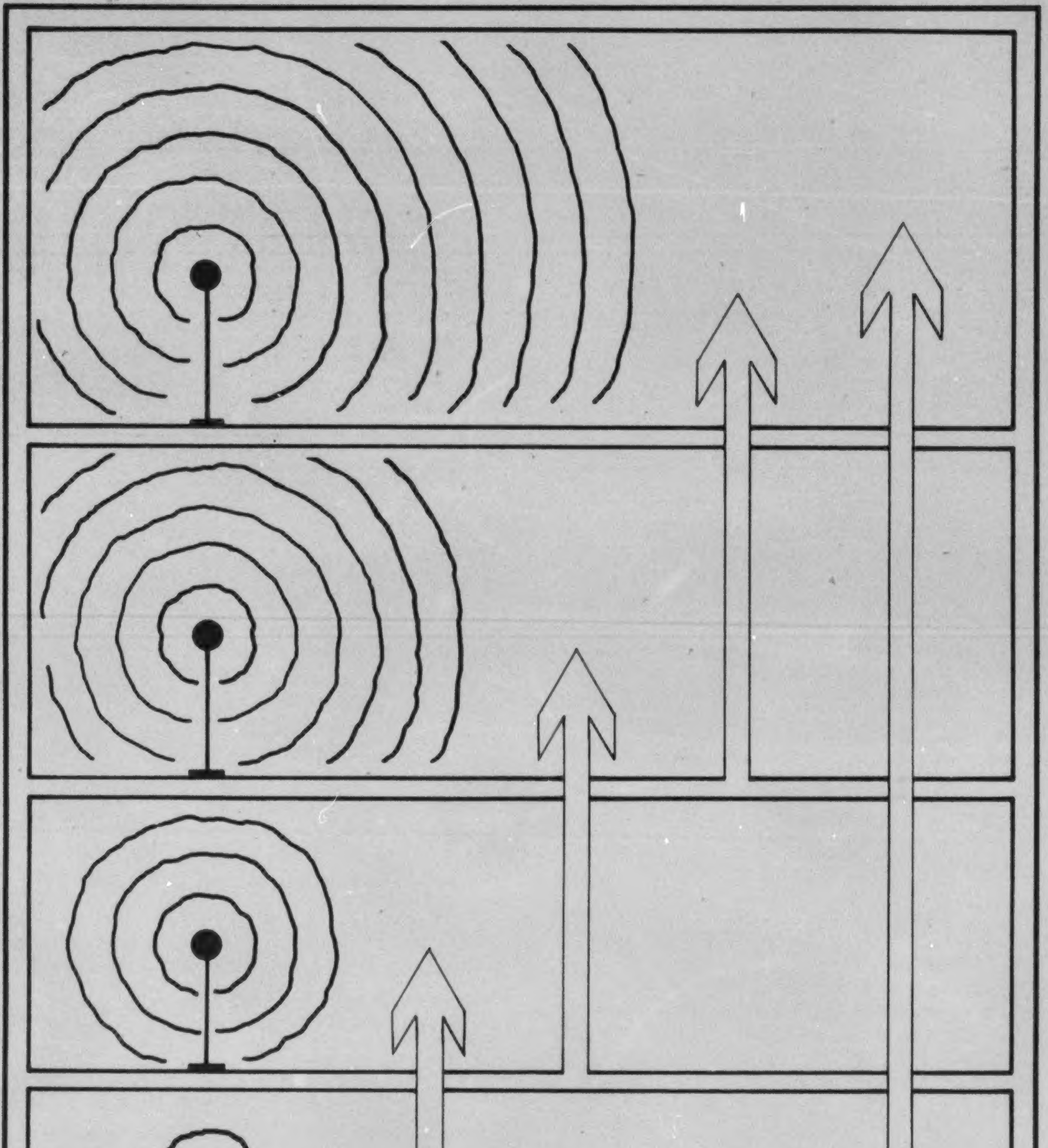
Points To Be Highlighted by the Case:

1. *The unlimited liability of the owner(s) is a major consideration in the decision.*
2. *The management of the business is a major consideration in this case. A general partnership should strengthen the management of a business.*
3. *The importance of the articles of partnership should be emphasized.*

Possible Solution:

1. *Mr. Stevens should evaluate the liability he will incur by accepting the offer. He has a great deal to lose if Mr. Simpson is not a suitable partner. The management position of the expanded business may be weakened.*
2. *The articles of partnership should include a provision that Mr. Stevens make the management decisions. The following should also be included in the articles of partnership: (1) divisions of profit or loss, (2) compensations to each partner, (3) distribution of assets in the event of dissolution, (4) duration of partnership, and (5) duties of each partner.*
3. *Mr. Stevens may want to accept Mr. Simpson as a limited partner. Mr. Stevens would then have complete control of the management of the business and solve his expansion problem.*



unit six managerial planning

The day-to-day duties of the manager of a small business usually include all aspects of the operation of the business. The manager has little time for reflecting on the goals of the business. However, business planning is essential to the long-run survival of a business. Most small businesses operate in a highly competitive environment. Planning will reduce risk and increase the probability for future success. Operating the business on a day-to-day basis does not insure the long-run growth and prosperity of a firm. The business owner must be able to plan and to guide the operation of the business toward long-range goals.

The need for a written plan of action is essential. Without explicitly stated plans of action, that include periodic plans for checking and evaluating the business progress toward long-range goals, the business will not likely succeed. In order to cope with changing conditions that occur in the market, the economy, or within the business, goals must be flexible and able to be modified if necessary.

The content of this unit is divided into three major categories: (1) planning long and short-range goals, (2) organization to achieve goals, and (3) controlling the progress of a business toward achieving goals.

Unit Objectives

- *To provide information regarding the planning of long-range and short-range goals for a business.*
- *To explain the procedures for organizing a business to accomplish the business goals.*
- *To provide information regarding the controlling of progress toward business goals.*

Student Objectives

- *Upon completion of this unit, the student will be able to:*
  - *a. Explain why long and short-range planning is essential to the successful operation of a business.*
  - *b. List at least five questions to be considered when developing long-range goals for the business.*
- *Given a particular business and the necessary information, the student will be able to:*
  - *a. Formulate long and short-range goals which enable the business to cope with change and competition.*
  - *b. Develop an organizational chart for the business.*
  - *c. Write job descriptions for each position necessary to the operation of the business.*
  - *d. Establish a control program to evaluate the progress of the business toward achieving the goals.*

I. What Is Planning?

A. Planning is the determination of a course of action for a business.

B. Planning involves the formulation of both long-range and short-range goals. Management goals should be stated in specific, measurable terms and should be realistic.

1. Long-range goals are to be accomplished one year or more into the future.
2. Short-range goals are more operationally oriented, and are to be accomplished in shorter intervals of time (less than one year). Short-range goals are determined by the long-range goals.

C. Long-range and short-range goals can be stated in terms of quotas, percentages, dollar sales, cost reductions, deadlines, etc.

D. Long-range goals must state a desired outcome. Short-range goals must not only state a desired outcome, but also state how the desired outcome will be achieved.

- *The instructor may write the long-range goals "TO INCREASE SALES" on the chalkboard and ask for student reactions. The instructor may then write "TO INCREASE SALES BY 25%" on the chalkboard and ask for class reactions. The students should add to the long-range goal until it states "TO INCREASE SALES BY 25% WITHIN ONE YEAR". The long-range goal is now stated in specific and measurable terms.*

- *The instructor may write the short-range goal "TO INCREASE SALES BY 10% BY THE END OF THE NEXT FISCAL QUARTER" on the chalkboard and may ask for student reactions. The students should add to the short-range goal until it states something like "TO INCREASE SALES BY 10% BY THE END OF THE FISCAL QUARTER BY ADDING TWO SALESPEOPLE TO THE SALES STAFF." The short-range goal is now specific, measurable, and based on the long-range goal. It also states how the desired outcome will be achieved. If two salespeople are added and sales increase by at least 10%, then it is apparent that the business is progressing on course to attain its long-range goal.*

- *Have each student write two long-range goals and two corresponding short-range goals. The instructor may then ask the students to read their long-range and short-range goals to the rest of the class. The class and the instructor should determine if the goals are specific, measurable, realistic, and if the short-range goal states how the desired outcome will be achieved.*

II. Why Is Planning Necessary?

A. Change is inevitable. The rate of change in the business world is accelerating. In order for a business to grow and prosper it must cope with this change.

B. Activities necessary for improvement and growth of a business are defined and put into operation.

C. Planning identifies all the resources that are available to the business and combines them for maximum utilization.

D. Standards are set for each segment of the business operation.

E. Planning encourages a teamwork effort for determining uniform goals and objectives, and for achievement of the goals.

III. What Information Is Necessary for Planning?

A. When formulating goals, the following questions should be considered:

1. Are the company's products selling well?
2. Are some of the company's products selling better than others?
3. Do the sales justify expansion of the business?
4. In what direction is the market moving?
5. What is the competitive position of the business in the market?

B. Often, the answer to one question will lead to other questions that must be answered. For example, if products are not selling well, what can be done to increase sales?

C. The key to planning is the formulation of questions to be answered and the subsequent management decisions based on answers to the questions.

- *Have the class participate with the instructor in making plans for a vacation to take place one year from now. The actual vacation is the long-range goal. The short-range goals based on the long-range goal of taking a vacation will be developed by the class. Where to go on the vacation, where to spend the* *nights, scheduling problems, the cost of the vacation, etc. might be suggested areas for determining short-range goals. The point to be made with this example is that by using explicit plans the probability of achieving the goal is greater. In order to develop the long-range goal or plan, the students have to determine answers to a variety of specific questions.*

IV. How Can Employees Help Accomplish the Goals?

A. A formal organizational structure should be established to accomplish the plans or goals of the business. An organization chart should be developed which depicts the necessary positions for operation of the business.

B. Although the owner/manager is responsible for supervising and evaluating the overall performance of the business, he or she should delegate some of the responsibility for the various tasks to be performed to employees.

C. The employee must clearly understand the tasks to be performed. To make sure the employee clearly understands his or her duties, a detailed job description should be written for each position in the business. The job description should include an account of all duties to be performed by the employee and an explanation of how those duties are to be performed. A copy of the job description can be given to the employee when he or she is hired by the business to insure that the employee will know exactly what is expected from him or her.

D. The employee must know to whom he or she will be held accountable for the work performed. Each employee should have only one supervisor.

E. Whenever responsibility is delegated to an employee, the authority necessary to accomplish the task should also be given to that employee. An employee cannot be held accountable for a task if he or she is not in the position to do whatever is necessary to accomplish the task. The owner of the business must delegate some authority for decision making to employees.

- *The instructor might develop an organizational chart of the school on the chalkboard showing the various positions within the school and the lines of authority. Brief job descriptions for these positions might then be written.*

V. How Can Progress Toward Goals Be Measured?

A. Long and short-range goals are meaningless without some sort of constant follow-up to check actual performance as compared to plans of action.

B. Control procedures allow the person with the authority and responsibility for the achievement of goals to frequently check performance and take corrective steps when necessary.

C. Without continuous control procedures, evaluation of performance can only be conducted when the long-range planning period has ended. At that point, it is too late to make corrections.

D. Control points must be selected which clearly follow the guides established by the short-range goals. For example, the control points could be weekly, monthly or quarterly.

E. It must be decided how to measure and evaluate actual performance at these control points. This should be included in the short and long-range goals. For example, the measurement could be increased dollar amounts, percentages, etc. The specific desired results are included in the goals.

F. Any differences that exist between actual and desired performance must be interpreted. Decisions must then be made regarding what corrective action should be taken. Standards of performance can be reduced or decisions made to bring actual performance in line with expectations.

WAJP

Mr. Al J. Pollard has owned and operated a small FM radio station, WAJP, in Joliet, Illinois for several years. The radio station broadcasts from 6:00 a.m. to 10:00 p.m. seven days a week. Because of the type of music that is played on WAJP, usually polkas and old favorites, the listening audience is comprised of mostly people over forty years of age who live in a small ethnic neighborhood on the near northwest side of town. WAJP is a small operation, yet it has enjoyed a reasonable profit over the years, usually about $15,000 a year. However, the profit has been decreasing of late. This decrease in profit has forced the station to increase its prices for advertising time. This increase in advertising rates has begun to cause some problems. Some advertisers are unwilling to pay the increased cost because they are not sure that they are getting a sufficient amount of business from WAJP's listening audience to warrant the increased cost.

Mr. Pollar decided that if the radio station is to survive, some changes would have to be made. After doing several weeks of research, Mr. Polland discovered the following facts:

1. WAJP's present listening audience has decreased from 10,000 to 5,000 people over the past five years.
2. All of the FM stereo rock stations received in the Joliet area do their broadcasting from Chicago, and much of the time the reception of their broadcasts in Joliet is quite poor.
3. There is one FM rock station operating at Lewis University in Lockport, about five miles from Joliet. But, that station only broadcasts at night 8:00 p.m. to midnight and it does not broadcast in stereo.
4. The potential listening audience for an FM stereo rock station in the Joliet area is about 30,000 people.
5. WAJP's advertising rates could be increased from $50 per minute to about $150 per minute, but many new sources of advertising would have to be developed.
6. The cost to WAJP to change its present operation to FM stereo would be about $20,000.

Once Mr. Pollard discovered the potential market that exists, he decided to change his operation to FM stereo rock music broadcasts.

Suggested Questions for Discussion:

1. List what you consider to be the two major problems facing management.
2. State a minimum of two long-range goals which need to be developed to alleviate the problems and insure the continued success of the business. Be sure the goals are specific, measurable, and realistic.
3. State several short-range goals to be accomplished which will assist in achieving each of the long-range goals. These short-range goals must be specific, measurable and realistic. Short-range goals must state how the desired outcome will be achieved.
4. Establish control points to measure performance and list any decisions for corrective action which you anticipate might have to be made.

Points To Be Highlighted by the Case:

1. *Planning long-range and short-range goals will increase the probability for success of the FM radio station.*
2. *Control points should be established to measure the actual performance of the business against planned expectations. This will enable the owner to take corrective action when necessary.*

Possible Solution:

1. *Two management problems facing WAJP:*
   a. *Decreasing audience size*
   b. *Development of new sources of advertising revenue*

2. *Two long-range goals to alleviate management problems:*
   a. *To increase the listening audience of WAJP to 30,000 people within one year.*
   b. *To attract 25 new advertisers to WAJP within one year.*

3. *Corresponding short-range goals:*
   a. *To increase the listening audience of WAJP to 8,500 people within three months by offering FM stereo rock music broadcasts.*
   b. *To attract six new advertisers to WAJP within three months by contacting at least 100 businesses catering to the youth market.*

4. *Control points might be established at three month intervals to correspond with the short-range goals. At these control points, progress toward the achievement of the long-range goals can be evaluated, and any necessary corrective steps taken. Decisions such as changes in program format, changes in hours of operation and additional sources of new advertisers, might have to be made at these control points.*

The Roxy Theatre

Decision-making

Creativity

Three young men, all of whom have degrees in Business Administration, have been looking for the opportunity to go into business for themselves for several months. After considering several possible opportunities, these men have decided to reopen an abandoned movie theatre located in Lockport, Illinois. Since all three of the men have spent many years of their lives in the Lockport area, they feel that they are well enough acquainted with the characteristics of the people in Lockport to turn the theatre into a profitable business.

The Roxy Theatre has been in operation for about 35 years. At first the theatre showed popular films for the people of the Lockport area and was a successful business. However, as the population of the Lockport area became more mobile, many of the theatre's patrons began to drive the five miles to Joliet to see the movies there. The reason for this shift was attributed to the fact that the Joliet theatres showed better movies at the same price as the Roxy. The Joliet theatres were more attractive than the Roxy, and in Joliet there are a variety of good restaurants to go to after the movie, whereas in Lockport the number of good restaurants is very limited.

Several attempts have been made to reopen the Roxy, usually on a weekends only basis, but all have failed. Most recently the Roxy was opened as a theatre showing x-rated films. That venture also failed and the theatre was abandoned.

The three men raised the $15,000 needed as a down payment on the building and purchased it for $85,000 at an annual interest rate of 9% for thirty years.

The inside of the theatre needed remodeling. The 600 seats must be recovered and new projection equipment is needed. The estimated cost of this remodeling is $15,000 which will all be financed at 9% per year interest for five years.

The theatre will again be opened on a limited basis. On Thursday, Friday, Saturday, and Sunday nights, older, well known movies will be shown. The admission charge will be one dollar. On Saturday and Sunday mornings and afternoons, cartoons and other types of childrens' films will be shown. The admission charge for these shows will be fifty cents. Also, at least ten times during the year the theatre will be used for rock concerts featuring well known groups who are in the area. Tickets for the concerts will be sold on a first come first served basis for four dollars. Profits from concession stand sales is estimated to be about $100 per week.

The rental cost of film is $200 per weekend for the morning and afternoon childrens' movies, and $600 per week for the older movies to be shown on Thursday, Friday, Saturday, and Sunday nights. The cost of the rock groups will be $1,000 per night.

A projectionist will be needed for twenty hours per week at a rate of $6.00 per hour. Also, two ushers will be hired to work 25 hours per week at a rate of $2.50 per hour. Three people will be hired to work as ticket sellers, ticket takers, and concession stand employees for 25 hours per week at a rate of $2.00 per hour.

The business will be organized as a partnership with each partner owning an equal share of the business. The management duties are divided equally. One partner will be in charge of the film rentals and accounting. Another partner will be responsible for the operation of the theatre, and the third partner will be responsible for the upkeep of the building.

The new owners realize that turning the usually unsuccessful Roxy Theatre into a profitable business will be no easy task. Much needs to be done to change the image of the theatre, especially since it most recently showed x-rated films and will now be showing childrens' films. The new owners feel the potential market for the theatre when it reopens will be young people for the night shows and children for the day shows. Five thousand dollars will be allocated for an advertising budget for the first year of operation.

Suggested Questions for Discussion:

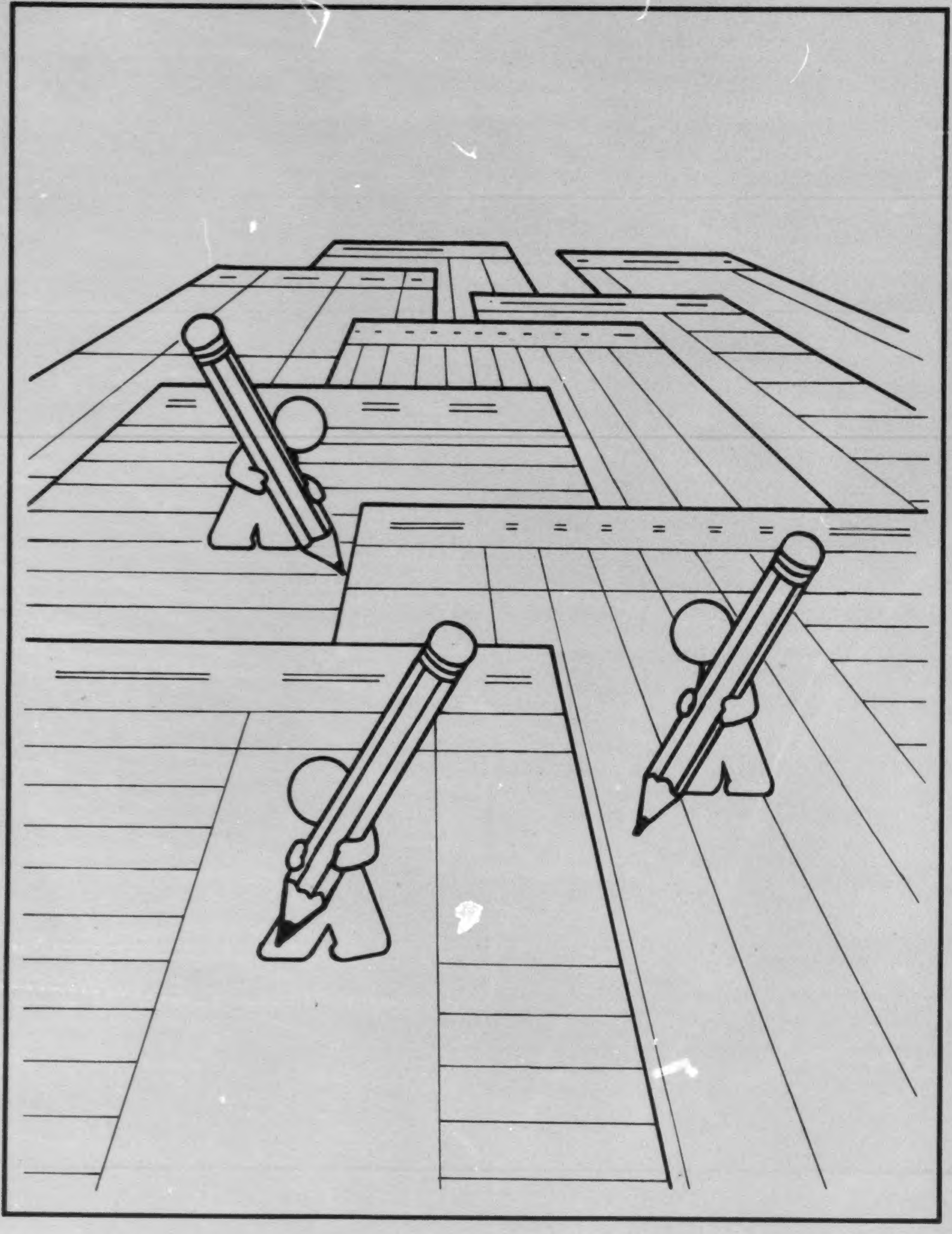
1. Is planning necessary for this business? Why or why not?
2. What information do the managers need before they can develop long and short-range goals?
3. How can progress toward these goals be measured?
4. What suggestions do you have which will contribute to the success of the business?

Points To Be Highlighted by the Case:

1. *The businessmen need to establish long and short-range goals for the new business.*
2. *Control procedures to check actual performance with planned progress need to be developed.*

Possible Solution:

1. *Planning is necessary for the following reasons:*
   - a. *Planning reduces risk and increases the probability of success.*
   - b. *Planning defines the business activities necessary for successful operation of the business.*
   - c. *Planning identifies all of the resources available to the business and combines them for maximum utilization.*
   - d. *Standards of performance are established for each segment of the business operation.*
   - e. *Planning encourages a teamwork effort toward the determination and achievement of goals.*
2. *The managers need to answer the following questions:*
   - a. *In what direction is the market moving?*
   - b. *What types of movies and other entertainment will be the most popular and profitable?*
   - c. *What is the competition offering and at what price?*
3. *Progress toward goals can be measured by establishing control points at specified intervals of time. For example, if a goal has been set to average 300 Saturday morning customers by the end of the year, the attendance should be monitored at three month intervals. After three months a decision might have to be made to take corrective action which will increase attendance.*
4. *The business should develop long-range and short-range goals designed to insure a profitable business operation. These goals should be monitored at established control points to determine progress. The goals should be flexible enough to allow for any necessary corrective action. Goals should be formulated for each segment of the business operation.*



unit seven

recordkeeping

An efficient recordkeeping system is a requirement for any business, large or small. All business transactions should be recorded in full on paper. Many small businesses fail because of inadequate recordkeeping. The business may have an excellent product, a high sales volume, and a good profit margin. However, without proper records the business is inviting disaster. Too often, the small business owner has the attitude or belief that keeping records is not necessary in a small business. The person who owns a small business is confronted with problems and decisions every day. Sound decisions require a manager who is informed of aspects of the business. The proper recordkeeping system can provide the information necessary to solve many management problems, and to make sound decisions.

It is essential that a business obtain the advice and assistance of an accountant. The accountant will establish an adequate recordkeeping system for the business, and explain the system in detail to the owner. This unit will develop a basic recordkeeping system that might be recommended for use by a small business.

Unit Objectives

- *To emphasize the importance of recordkeeping to the small business.*
- *To illustrate procedures for establish[illegible] basic recordkeeping system in a small business.*

Student Objectives

- *Given actual checks written and deposits made by a particular business and a bank statement for the same period, the student will be able to accurately complete a bank reconciliation statement.*
- *Given transactions for a particular business, the student will be able to accurately perform the following recordkeeping functions:*
    - *a. Complete a daily receipts summary.*
    - *b. Make business payments using the business checkbook.*
    - *c. Record the credit sales transactions in the accounts receivable register.*
    - *d. Explain the procedure for operating a petty cash fund.*
- *Given actual hours worked by employees during one week, the student will be able to accurately complete the individual payroll records and the summary payroll record.*

I. Why Keep Records?

A. The law requires that some form of records be kept by all businesses.

B. Adequate records can answer the following questions:

1. How much profit is the business making?
2. How much is the business worth?
3. How much do credit customers owe the business?
4. How much does the business owe its creditors?
5. How much tax should the business pay?

II. How Can a Recordkeeping System Be Established?

A. A prerequisite to implementing an adequate recordkeeping system is to obtain the advice and assistance of an accountant. If an owner cannot afford an accountant, he or she cannot afford to be in business.

B. An accountant can establish a suitable recordkeeping system tailored to the needs of a particular business.

III. Who Keeps the Records?

A. The owner may wish to keep all the records personally. However, it should be remembered that the owner should spend time in organizational and managerial tasks.

B. The recordkeeping function may be assigned to an assistant who has a knowledge of recordkeeping. If the size of the business warrants, recordkeeping may be assigned to one person on a full time basis. As in all matters of delegation, while the owner will evaluate the work periodically, the bookkeeper should perform the daily procedures.

C. An outside firm may design the recordkeeping procedures. However, the daily records will need to be kept by the business as transactions occur.

IV. What Basic Records Should Be Maintained Daily?

A. **Business checkbook.** Obtain a business checkbook from a banker. Full details of each payment should be entered on the check stub to include:

1. Check number
2. Amount of check
3. Date of payment
4. To whom payment is made
5. Purpose of payment
6. Balance brought forward
7. Deposits made
8. Balance carried forward

- *Using either the overhead projector or the chalkboard, the instructor would present the following example of a business check. The importance of the check stub should be emphasized. It must be completed in full detail because it is the owner's only record of payments made.*

B. **Daily receipts summary.** A summary of the cash received by the business on that day should be prepared daily. All money accounted for on the daily receipts summary should be deposited daily in the business checking account. Items to be included in the daily receipts summary include:

1. Cash sales for the day
2. Total amount received for money owed to the business (accounts receivable)
3. Total deposited in business checking account

- *Using either the overhead projector or the chalkboard, the instructor should present the following example of a daily receipts summary. It should be emphasized that this form must be filled out daily as the money is deposited in the business checking account. It is the owner's only record of daily receipts. The amount deposited should then be entered into the business checkbook. Each check stub has a place for recording a deposit.*

Business Check

Check No. 101 $ 105.00
Date January 4, 19--
To Henderson Supp. Co.
For merchandise received

Bal. Bro't. For'd.	2,005.00
Amt. Deposited	—
TOTAL	2,005.00
Amt. this check	105.00
Bal. Car'd. For'd.	1,900.00

URBANA NATIONAL BANK
Urbana, Illinois

Check No. 101

Date January 4, 19--

Pay to the order of Henderson Supply Company $105.00/100

One hundred five and 00/100 dollars.

RIPLEY'S CHINA SHOP

John R. Ripley

Daily Receipts Summary

Date January 5, 19--

Cash Sales for the Day	$ 418.00
Total Cash Received on Accounts Receivable	$ 42.00
Total Deposited in Business Checking Account	$ 460.00

C. **Accounts receivable register.** This record could consist of a loose leaf binder, with a separate sheet for each credit customer, kept in alphabetical order.

1. Details of credit sales are obtained from copies of the customer's sales slips which are kept on file. Credit sales should be recorded on the day they are made.
2. Details of payments by customers should be recorded on the day the money is received.
3. The accounts receivable register allows the owner to keep a "running total" of amounts owed and paid by each customer who purchases merchandise on credit.

- *Using either the overhead projector or the chalkboard, the instructor should present the following example of an accounts receivable register. It should be emphasized that details of the credit sales and payments received from previous credit sales should be entered into the accounts receivable register as they occur (or recorded each day.) Since this is the only record of credit sales, and how much is owed the business by different customers, it must be accurate and kept up to date.*

D. **Petty Cash.** While practically all business payments should be made by check, most businesses find it necessary to make some small payments with cash. For example, postage due on mail delivered. This is best accomplished by adopting a petty cash system. The following steps are necessary for operating a petty cash system:

1. Decide on a figure to be maintained in the petty cash fund. For example, $20.
2. Write a business check for that amount payable to petty cash.
3. Deposit that amount in a petty cash box.
4. Each time petty cash is used, write out a petty cash slip describing the purchase, to whom paid, and the amount paid. If possible attach the receipt to the petty cash slip.
5. Deposit the petty cash slip in the petty cash box. The total amount of cash and amounts represented by petty cash slips should always equal the determined amount of the petty cash fund.
6. As cash becomes depleted, another check payable to petty cash is written to bring the amount in the petty cash box up to the predetermined figure for the petty cash fund.

- *Using either the overhead projector or the chalkboard, the instructor may present the following example of a petty cash slip. The instructor should emphasize the importance of the petty cash slips. Students should be asked for various uses of petty cash to insure that they know the purpose of the petty cash fund.*

E. **Bank reconciliation statement.** Each month the business will receive a statement from the bank, showing the balance of cash in the business checking account according to the bank records. It is important for the owner to make sure that the business records agree with the bank's. In order to do this a bank reconciliation statement is necessary.

1. Theoretically, the balance shown on the bank statement should correspond with the balance shown on the last check stub on the date of the bank statement.
2. In practice, this rarely occurs. A number of checks written by the business may not have been cashed by the recipients. Some deposits made by the business may not have yet been credited to the business checking account by the bank. Some bank charges may also appear on the bank statement.

- *Using either the overhead projector or the chalkboard, the instructor may present the following example of a bank reconciliation statement.*

V. What Payroll Records Are Necessary?

A. It is important that the business owner keep a record of hours worked, wages earned, and deductions taken from wages for each employee.

B. A payroll record is necessary for future planning. It will enable the owner to keep track of exact payroll expenses.

C. Exact figures for deductions of federal, state, and any other taxes must be known in order for the owner to meet legal requirements.

- *Using either the overhead projector or the chalkboard, the instructor may present the following examples of individual employee payroll records and a summary payroll record for all employees. (Actual figures for deductions should be taken from tables available to employers from federal and state internal revenue service offices. Deductions which appear in the following examples are estimates.)*

Accounts Receivable Register

Customer Mr. John Willis

Date	Details	Amount
Jan. 3, 19--	Credit Purchase -- sales slip #129	$ 150.00
Jan. 15, 19--	Cash Received -- check #824	130.00
		20.00
Feb. 20, 19--	Credit Purchase -- sales slip #315	85.00
		105.00
Feb. 27, 19--	Cash Received -- check #914	105.00
		-0-

Petty Cash Slip

Date January 10, 19-- No.

Amount $ 2.40

Purpose purchase coffee supplies

Signed Mrs. Ruth Nicholson

Bank Reconciliation Statement

Balance shown on bank statement		$429.00
add deposits not credited:		
Dec. 29	$63.00	
Dec. 30	25.00	88.00
		$517.00
subtract outstanding checks:		
Check No. 946	$20.00	
Check No. 948	46.00	66.00
Adjusted balance per bank statement		$451.00

Balance as shown in checkbook	$453.00
subtract:	
bank service charge	2.00
Adjusted checkbook balance	$451.00

Payroll Records

Employee Tom Johnson Social Security Number 000-00-0000

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Over-time Hrs.	Over-time Rate Per Hr.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deduc-tions	Total Deduc-tions	Net Pay
Week 1	4	4	4		4		4	20	2.50	50.00	0	3.75	0	50.00	3.00	5.00	1.50	0	9.50	40.50
Week 52																				

Employee Linda Turner Social Security Number 000-00-0000

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Over-time Hrs.	Over-time Rate Per Hr.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deduc-tions	Total Deduc-tions	Net Pay
Week 1		8	8	8		8	8	40	3.00	120.00	0	4.50	0	120.00	7.20	18.00	2.80	0	28.00	92.00
Week 52																				

Summary Payroll Record

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Ttl. Reg. Pay	Over-time Hrs.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deduc-tions	Total Deduc-tions	Net Pay
Week 1	4	12	12	8	4	8	12	60	170.00	0	0	170.00	10.20	23.00	4.30	0	37.50	132.50
Week 52																		

John's Hardware

1. The following are the actual checks written and the deposits made according to John's Hardware records.

Checks

Date	Check Number	Amount
January 10	90	$ 90.00
January 10	91	30.00
January 11	92	130.00
January 11	93	250.00
January 11	94	40.00
January 11	95	130.00
January 12	96	120.00
January 12	97	170.00
January 13	98	110.00
January 13	99	280.00
January 14	100	120.00

Deposits

Date	Amount
January 10	$400.00
January 11	260.00
January 12	300.00
January 13	300.00
January 14	110.00

Check Stub

Check No. *100* $ *120.00*
Date *January 14, 19--*
To *Johnson's Equipment*
For *fixtures*

Bal. Bro't. For'd.	*$ 110.00*
Amt. Deposited	*110.00*
TOTAL	*220.00*
Amt. this check	*120.00*
Bal. Car'd. For'd.	*100.00*

The bank statement received by John's Hardware from the Urbana National Bank dated January 14, 19______, is presented below.

URBANA NATIONAL BANK
Bank Statement for John's Hardware

January 14, 19______

Date	Checks and Deposits	Amount	Balance
		Beginning	$200.00
January 10	Check No. 90	$90.00	110.00
January 10	Check No. 91	30.00	80.00
January 10	Deposit	400.00	480.00
January 11	Check No. 93	250.00	230.00
January 11	Check No. 95	130.00	100.00
January 11	Deposit	260.00	360.00
January 12	Check No. 97	170.00	190.00
January 12	Deposit	300.00	490.00
January 13	Check No. 98	110.00	380.00
January 13	Check No. 99	280.00	100.00
January 13	Deposit	300.00	400.00
January 14	Check No. 100	120.00	280.00
		Bank service charge	2.00
		Current balance	$278.00

2. The following are business transactions for John's Hardware on the day of January 15, 19____. The business checking account balance as of January 14, 19______, was $98.

   a) Cash sales totaling $465.

   b) Credit sales to Mr. Jones (invoice No. 112) totaling $45.

   c) Received a check (No. 847) from Mr. Jones for payment on his account in the amount of $20.

   d) Credit sales to Mrs. Wilson (invoice No. 113) totaling $15.

   e) Paid Acme Supply Company for shipment of nails received with check No. 101 in the amount of $86.

   f) Paid Peterson Company for shipment of tools received with check No. 102 in the amount of $100.

3. The following information is necessary to complete the weekly payroll records for John's Hardware:

Employee: Bart Nelson **Social Security Number:** 000-00-0000

Hours worked: Monday — 8 hours
Tuesday — 4 hours
Friday — 8 hours

Regular pay rate: $3.00 per hour

Social Security Deduction: $3.60

Federal Income Tax Deduction: $6.00

State Income Tax Deduction: $1.40

• • • • • • • • • • • • •

Employee: Rita Simpson **Social Security Number:** 000-00-0000

Hours worked: Wednesday — 4 hours
Thursday — 4 hours
Saturday — 4 hours

Regular pay rate: $3.00 per hour

Social Security Deduction: $2.10

Federal Income Tax Deduction: $3.50

State Income Tax Deduction: $ .90

Suggested Questions for Discussion:

1. Balance the business checking account for John's Hardware using a bank reconciliation statement.
2. Using the forms on the following pages, perform the necessary recordkeeping functions for John's Hardware for January 15. (When completing the recordkeeping forms, make the daily deposit to the business checking account before writing any checks.)
3. Complete the weekly individual employee payroll records and the summary payroll record for John's Hardware.

Business Checks

Check No.______ $______
Date ______________
To ______________
For______________

Bal. Bro't. For'd. ______
Amt. Deposited ______
TOTAL ______
Amt. this check ______
Bal. Car'd. For'd. ______

URBANA NATIONAL BANK
Urbana, Illinois
Check No. 101

Date______________

Pay to the order of ______________________ $______

______________________________ dollars.

JOHN'S HARDWARE

____

Check NO.______ $______
Date ______________
To ______________
For______________

Bal. Bro't. For'd. ______
Amt. Deposited ______
TOTAL ______
Amt. this check ______
Bal. Car'd. For'd. ______

URBANA NATIONAL BANK
Urbana, Illinois
Check No. 102

Date______________

Pay to the order of ______________________ $______

______________________________ dollars.

JOHN'S HARDWARE

____

Daily Receipts Summary

Date ____________

Cash Sales for the Day $________

Total Cash Received on Accounts Receivable $________

Total Deposited in Business Checking Account $________

Bank Reconciliation Statement

Balance shown on bank statement $________

add deposits not credited:

____

$________

subtract outstanding checks:

____

Adjusted balance per bank statement $________

Balance as shown in checkbook $________

subtract:

bank service charge ________

Adjusted checkbook balance $________

Accounts Receivable Register

Customer ____________________

Date	Details	Amount

Customer ____________________

Date	Details	Amount

Payroll Records

Employee ____________________ Social Security Number ____________

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Over-time Hrs.	Over-time Rate Per Hr.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																				
Week 52																				

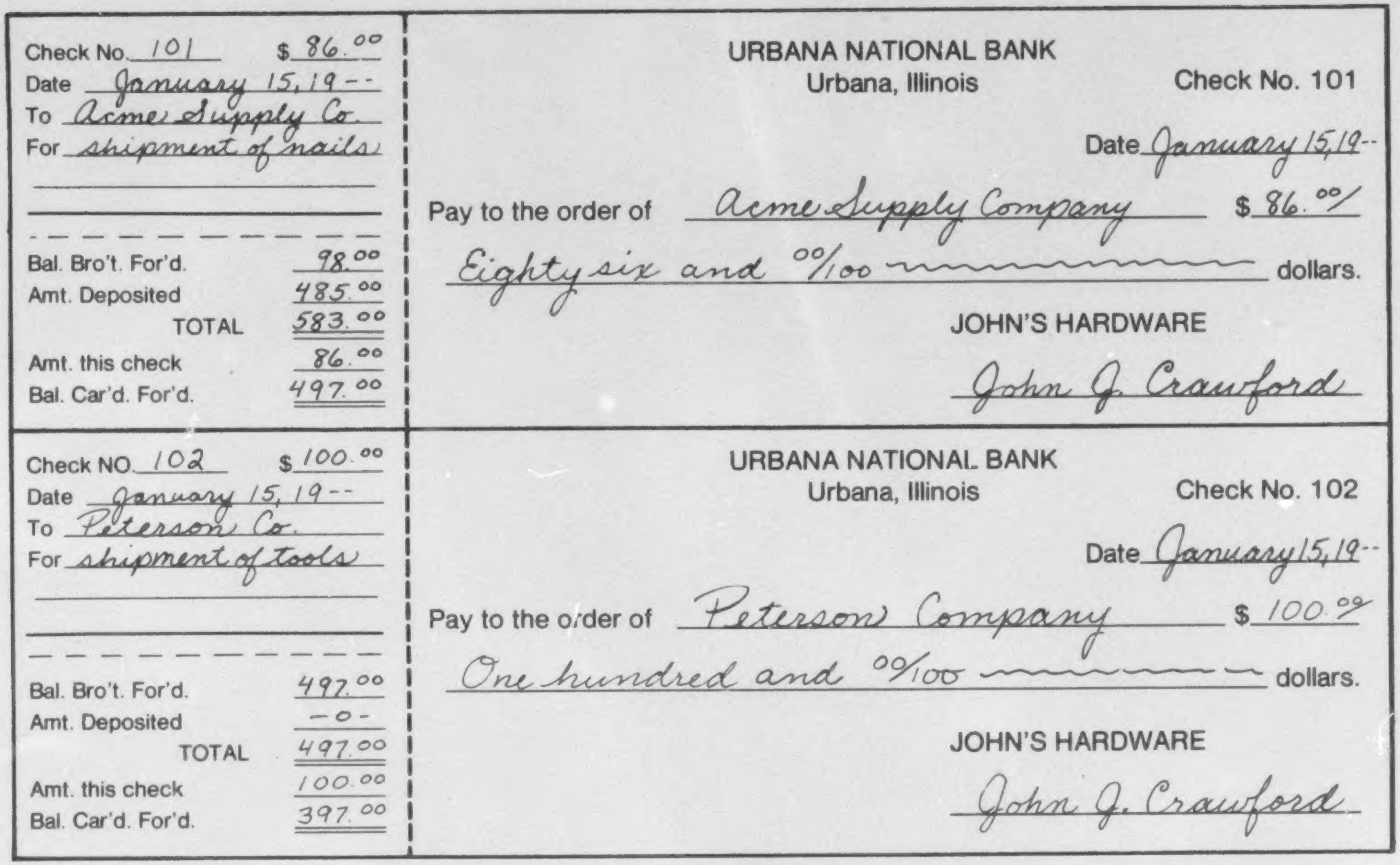
Employee ____________________ Social Security Number ____________

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Over-time Hrs.	Over-time Rate Per Hr.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																				
Week 52																				

Summary Payroll Record

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Ttl. Reg. Pay	Over-time Hrs.	Ttl. Over-time Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																		
Week 52																		

Completed Forms



Check No. 101 $ 86.00
Date January 15, 19--
To Acme Supply Co.
For shipment of nails

Bal. Bro't. For'd.	98.00
Amt. Deposited	485.00
TOTAL	583.00
Amt. this check	86.00
Bal. Car'd. For'd.	497.00

URBANA NATIONAL BANK
Urbana, Illinois
Check No. 101

Date January 15, 19--

Pay to the order of Acme Supply Company $ 86.00/

Eighty six and 00/100 dollars.

JOHN'S HARDWARE

John J. Crawford

Check NO. 102 $ 100.00
Date January 15, 19--
To Peterson Co.
For shipment of tools

Bal. Bro't. For'd.	497.00
Amt. Deposited	-0-
TOTAL	497.00
Amt. this check	100.00
Bal. Car'd. For'd.	397.00

URBANA NATIONAL BANK
Urbana, Illinois
Check No. 102

Date January 15, 19--

Pay to the order of Peterson Company $ 100.00

One hundred and 00/100 dollars.

JOHN'S HARDWARE

John J. Crawford

Balance shown on bank statement		$278.00
add deposits not credited:		
Jan. 14		110.00
		$388.00
subtract outstanding checks:		
Check No. 92	$130.00	
Check No. 94	40.00	
Check No. 96	120.00	290.00
Adjusted balance per bank statement		$ 98.00
Balance as shown in checkbook		$100.00
subtract:		
bank service charge		2.00
Adjusted checkbook balance		$ 98.00

Date *January 15, 19--*

Cash Sales for the Day $ *465.00*

Total Cash Received on Accounts Receivable $ *20.00*

Total Deposited in Business Checking Account $ *485.00*

Completed Forms

Customer *Mr. Fred Jones*

Date	Details	Amount
1/15/--	*Credit Purchase - sales slip #112*	*45.00*
1/15/--	*Cash Received – check #847*	*20.00*
		25.00

Customer *Ms. Betty Wilson*

Date	Details	Amount
1/15/--	*Credit Purchase - sales slip #113*	*15.00*

Payroll Records

Employee Bart Nelson

Social Security Number 000-00-0000

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Overtime Hrs.	Overtime Rate Per Hr.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1		8	4			8		20	3.00	60.00	0	---	0	60.00	3.60	6.00	1.40	0	10.00	50.00
Week 52																				

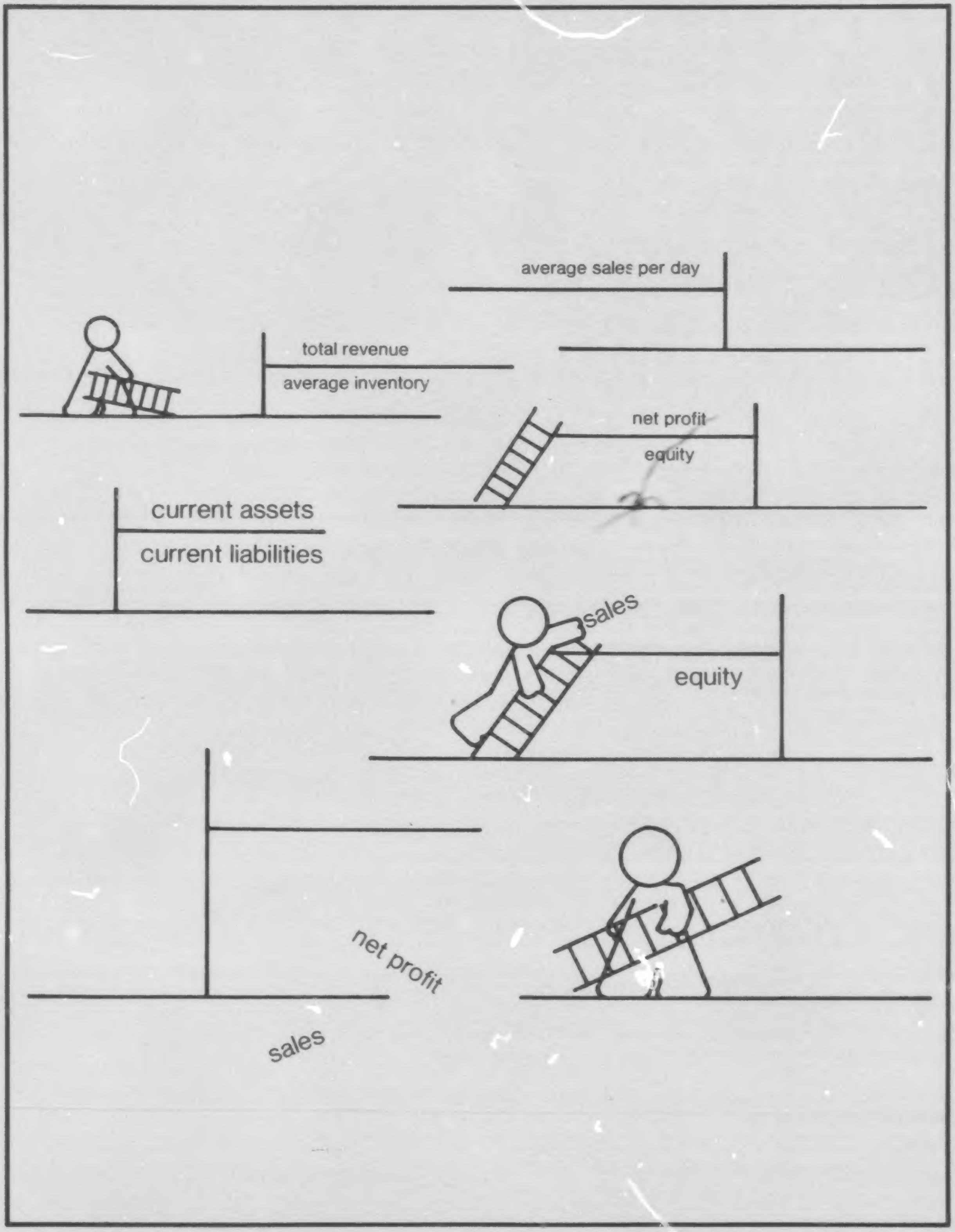
Employee Rita Simpson

Social Security Number 000-00-0000

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg Pay	Overtime Hrs.	Overtime Rate Per Hr.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1				4	4		4	12	3.00	36.00	0	---	0	36.00	2.10	3.50	.90	0	6.50	29.50
Week 52																				

Summary Payroll Record

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Ttl. Reg. Pay	Overtime Hrs.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1	0	8	4	4	4	8	4	32	96.00	0	0	96.00	5.70	9.50	2.30	0	16.50	79.50
Week 52																		


average sales per day
total revenue
average inventory
net profit
equity
current assets
current liabilities
sales
equity
net profit
sales

unit eight
financial management

Competent financial management is essential to the profitability and growth of any business. Too often, the small business owner has financial statements prepared by an accountant, which are then filed away after the owner quickly glances at them. This attitude toward financial management is usually the result of a lack of knowledge regarding the value of financial statements.

This unit will provide information regarding the contents of both the income statement and the balance sheet. The unit will also present procedures for interpreting the information contained in these financial statements through the use of ratio analysis. The owner must also be aware of the cash needs of the business for the future. It is essential that an adequate amount of cash be available to meet commitments, but it is not wise to have surplus cash on hand that could be earning a return if used in another capacity. Developing a cash forecast for the business will help the owner determine cash needs for future periods of time.

It is important to the future of the business that the owner be able to adequately perform financial management tasks. These tasks include: (1) reading and analyzing financial statements, (2) determining the financial strengths and weaknesses of the firm, (3) planning any necessary corrective action, and (4) developing cash forecasts for the business.

Unit Objectives

- *To provide information regarding the content and use of both the income statement and the balance sheet.*

- *To provide information regarding the use of ratio analysis in determining the financial status of a business.*

- *To provide information regarding the preparation and use of a cash forecast.*

Student Objectives

- *Given a particular business, the student will be able to:*

    a. *Use selected ratios to analyze the financial statements of the business.*
    b. *Determine the financial strengths and weaknesses of the business.*
    c. *Determine what corrective action should be taken.*
    d. *Complete a cash forecast for the business.*

I. What Are Financial Statements?

A. Two important financial statements used by most businesses are the balance sheet and the income statement.

B. The balance sheet shows the financial position of the business at a given date with regard to assets (what it owns), liabilities (what it owes), and equity (the owner's investment).

C. The income statement measures revenue and expenditures for a business over a certain period of time.

II. What Is the Balance Sheet?

A. The balance sheet shows the financial position of the business at a particular time. It can be regarded as a financial photograph of the business.

B. The balance sheet has two main sections. The first section illustrates what the business owns (assets). The second section illustrates what the business owes (liabilities), and the owner's investment in the business (equity).

1. **Assets.** Anything the business owns that has money value is an asset. Assets are classified as either current or fixed.
   a. **Current assets** include cash and those assets that will be converted into cash within one year. Examples of current assets include accounts receivable and inventory. Since all accounts receivable will probably not be collected, an allowance for bad debts should be shown on the balance sheet. An allowance for inventory loss, due to pilferage, breakage, markdowns, etc., should also be shown on the balance sheet.
   b. **Fixed assets** are those things that the business has acquired for long-term use. They include such things as land, buildings, and equipment. With the exception of land, fixed assets decline in value. A periodic charge for depreciation should be shown on the balance sheet.
2. **Liabilities.** Anything the business owes is a liability. Liabilities are claims against the assets of the business. Liabilities are classified as either current or long-term.
   a. **Current liabilities** are those debts which must be paid within one year. Examples of current liabilities are accounts payable and short-term loans.
   b. **Long-term liabilities** include debts which will not be paid within the year such as a long-term loan which is to be paid over a ten year period of time.
3. **Equity.** The assets of the business minus the liabilities of the business equal the owner's equity. The equity is the owner's investment in the business.

- *The instructor may illustrate the following balance sheet in a step-by-step manner by using either the overhead projector or the chalkboard. (Depreciation of $4,000 and $1,000 represents the accumulated depreciation over a number of years. Depreciation of $500 as recorded on the income statement represents depreciation for a single year.)*

Jim's Furniture Shop
Balance Sheet

December 31, 19___

Assets

Current Assets			
Cash		$13,000	
Accounts receivable	$7,000		
Less allowance for doubtful accounts	1,000	6,000	
Inventory	$9,000		
Less allowance for inventory loss	1,000	8,000	
Total current assets			$27,000
Fixed Assets			
Land		$ 7,000	
Building	$40,000		
Less allowance for depreciation	4,000	36,000	
Equipment	$10,000		
Less allowance for depreciation	1,000	9,000	
Total fixed assets			52,000
Total Assets			$79,000

Liabilities and Equity

Current Liabilities		
Accounts Payable	$9,000	
Notes Payable	2,000	
Total current liabilities		$11,000
Long Term Liabilities		
Mortgage	$30,000	
Total long term liabilities		30,000
Total Liabilities		$41,000
Equity		
Owner's equity		38,000
Total Liabilities and Equity		$79,000

III. What Is the Income Statement?

A. The income statement is a summary of all activity involving income and expenses incurred to the business during a particular period of time. The income statement illustrates the profit, or loss, during a particular financial period.

B. The income statement has five main sections: (1) total sales, (2) cost of goods sold, (3) gross profit, (4) expenses, and (5) net profit.

1. **Total revenue** is determined by adding cash sales and credit sales.
2. **Cost of goods sold** is the price paid by the business for merchandise sold during the period. The cost of goods sold can be computed by adding the value of the goods purchased during the period to the beginning inventory (the beginning inventory figure can be obtained from the previous income statement), and then subtracting the value of the inventory on hand at the end of the period.
3. **Gross profit** is the difference between total revenue and cost of goods sold.
4. **Expenses** are all those costs incurred in the day-to-day running of the business; for example, utilities, advertising, wages, etc.
5. **Net profit** is computed by subtracting expenses from the gross profit.

- *The instructor may illustrate the following income statement in a step-by-step manner by using the overhead projector or the chalkboard.*

Jim's Furniture Shop
Income Statement

For Period Ending December 31, 19________

Total Sales			
Cash sales		$32,000	
Credit sales		48,000	
Total Revenue			$80,000
Cost of Goods Sold			
Beginning inventory	$18,000		
Purchases	50,000		
Cost of goods available for sale		$68,000	
Less ending inventory		8,000	
Cost of Goods Sold			60,000
Gross Margin			$20,000
Expenses			
Salaries and wages		$10,000	
Utilities		1,000	
Advertising		1,500	
Depreciation		500	
Total Expenses			13,000
Net Profit Before Taxes			$7,000
Estimated Income Tax			2,000
Net Profit			$5,000

IV. How Can Financial Statements Be Analyzed?

A. Ratio analysis is a means of analyzing the figures that appear on financial statements. The use of these ratios enables the owner to compare the performance of his or her business with that of another firm, or with the performance of the industry as a whole. He or she can also compare the current year's performance with the performance of previous years. Such comparisons are essential elements in planning the future. Such comparisons highlight the strengths and weaknesses of the business operation.

B. A ratio is computed by taking selected figures from the financial statements and expressing one figure as a percentage of another figure.

- *The following ratios will analyze figures taken from the income statement and balance sheet previously presented (Jim's Furniture Shop). The instructor may keep the financial statements on the chalkboard or on the overhead projector while presenting the various ratios. As each ratio is figured the answer may be compared to the average figure for the furniture store industry which is illustrated in parenthesis. The average ratio figures have been taken from* ***Key Business Ratios****, Dun and Bradstreet, Inc. The students may then be asked to determine the performance of the business with regard to that particular ratio. If there is an apparent problem, the students may be asked to determine what corrective action could be taken.*

C. The following ratios offer valuable information to the business owner:

1. **Return on Investment.** This ratio shows the return obtained on the owner's investment in the business. It is computed by dividing the net profit by owner's equity, and expressing the result as a percentage.

$$\frac{\text{net profit}}{\text{equity}} = \frac{\$5{,}000}{\$38{,}000} = 13.1\%\ (7.7\%)$$

From a purely economic point of view, this figure should be relatively larger than the return the owner could get by investing his or her money elsewhere. The business owner should receive a better return on his or her investment for the time, effort, and risks involved in owning and operating a business.

2. **Net profit to sales.** This ratio shows the net profit margin on sales. It is computed by dividing net profit by sales.

$$\frac{\text{net profit}}{\text{sales}} = \frac{\$5{,}000}{\$80{,}000} = 6.2\%\ (2.4\%)$$

A low net profit on sales can be caused by two factors: (1) poor pricing policy, or (2) high operating costs. In order to determine which of these factors is causing the low net profit, further ratio data is available to the business owner. A poor pricing policy is reflected in the gross profit margin. Gross profit margin is computed by dividing gross profit by sales. The gross profit margin should be similar to, or greater than, the gross profit margin applicable to the particular industry. Operating costs can be examined by expressing individual items of expense such as advertising costs or payroll expenses as a percentage of sales. The ratios obtained should be compared with those of other firms in the same industry.

3. **Sales to equity (net worth).** This figure is referred to as the investment turnover and is not expressed as a percentage. A firm's net profit on sales may be high, but if the rate of asset turnover is low, the rate of return on investment may be low. The value of annual sales should be a certain number of times greater than the amount of investment in assets. This figure is computed by dividing sales by equity (net worth).

$$\frac{\text{sales}}{\text{equity}} = \frac{\$80{,}000}{\$38{,}000} = 2.1\ (2.8)$$

4. **Inventory turnover.** The inventory turnover figure shows how fast the merchandise is being sold. It is computed from the income statement, and answers the question of whether the business has too much or too little money tied up in the inventory. It is computed by dividing total revenue by average inventory.

$$\frac{\text{total revenue}}{\text{average inventory}} = \frac{\$80{,}000}{\frac{1}{2}(\$18{,}000 + 8{,}000)} =$$

$$\frac{\$80{,}000}{\$13{,}000} = 6.2 \text{ times } (4.5 \text{ times})$$

Usually, the higher the turnover rate the better. This would suggest that the merchandise in the inventory is current and salable. However, this figure is highly dependent on the type of business.

5. **Average collection period.** The average collection period is computed from the balance sheet and the income statement. It answers the question of how quickly the credit sales are being collected. It will tell the owner how many days' sales are tied up in accounts receivable. It is computed by first dividing sales by 365 (the number of days in the year) to determine the average sales per day. The accounts receivable is then divided by the average sales per day.

$$\frac{\text{sales}}{365} = \text{average sales per day} = \frac{\$80{,}000}{365}$$

$$= \$219$$

$$\frac{\text{accounts receivable}}{\text{average sales per day}} = \frac{\$7{,}000}{\$219} = 32 \text{ days}$$

(96 days)

The average collection period should not exceed 1½ times the credit terms extended by the business (thirty, sixty, ninety days, etc.)

6. **Current ratio.** The current ratio is computed from the balance sheet and answers the question of whether the business has enough current assets to meet its current debts. The current ratio is computed by dividing current assets by current liabilities. A current ratio of 2 to 1 is generally considered good.

$$\frac{\text{current assets}}{\text{current liabilities}} = \frac{\$27{,}000}{\$11{,}000} = 2.5\ (2.5)$$

Another ratio called the acid-test ratio answers the question of whether the business could meet its current obligations with funds readily available if all sales revenue should stop. It is computed by dividing cash plus accounts receivable by current liabilities. An acid-test ratio of 1 to 1 is considered satisfactory.

V. Where Can Ratio Data Be Located?

A. There are various sources of ratio data with which to compare the performance of a business with the average performance of similar businesses.

1. **Key Business Ratios.** Published annually by Dun and Bradstreet, Inc., 99 Church Street, New York, New York, 10007, Attention Public Relations Department. Free. Covers 125 lines of retailing, wholesaling, manufacturing, and construction industries.
2. **Mail-Me-Monday Barometer of Small Business.** Published semiannually by the Accounting Corporation of America, 1929 First Avenue, San Diego, California.
3. **Statement Studies.** Published annually by Robert Morris Associates, National Association of Bank Loan Officers and Credit Men, Philadelphia National Bank Building, Philadelphia, Pennsylvania.
4. The various trade associations often publish ratio data which is of particular use to different types of businesses.

- *The instructor may want to distribute the handout Key Ratios found on the following page to the students to be used as a study guide. The information may also be used on the overhead projector or chalkboard as a review of ratio analysis.*

Key Ratios

Ratios help indicate possible answers to important questions related to the efficiency of a business. Ratios give feedback on current operations and provide a basis for planning for the future. Comparisons of ratios for the current year should be made with ratios of previous years for a business, and with the ratios of other firms in the same line of business.

1.	$\frac{\text{net profit}}{\text{equity}}$	This ratio is known as return on investment. The ratio shows the return obtained on the owner's investment in the business. Is the return larger than the return the owner could get by investing his or her money elsewhere?
2.	$\frac{\text{net profit}}{\text{sales}}$	This ratio shows the net profit margin on sales. A low net profit margin can be caused by: (1) a poor pricing policy, or (2) high operating costs.
3.	$\frac{\text{sales}}{\text{equity}}$	This figure is referred to as the investment turnover. The value of annual sales should be a certain number of times greater than the amount of investment in assets.
4.	$\frac{\text{total revenue}}{\text{average inventory}}$	The inventory turnover figure shows how fast the merchandise is being sold. It answers the question of whether the business has too much or too little money tied up in the inventory.
5.	$\frac{\text{accounts receivable}}{\text{average sales per day}}$	The average collection period answers the question of how quickly the credit sales are being collected. It tells the owner how many days' sales are tied up in accounts receivable.
6.	$\frac{\text{current assets}}{\text{current liabilities}}$	The current ratio answers the question of whether or not the business has enough current assets to meet its current debts.

VI. Why Is a Cash Forecast Necessary?

A. Cash planning, and forecasting the future cash needs of the business are vital for survival. Unless cash needs are foreseen and provided for, there is a good chance the business will not be able to meet its commitments.

B. Too much cash on hand indicates that the owner is not alert to opportunities for wise use of surplus cash. Large amounts of cash which will not be used immediately should be invested in short-term securities where the cash will earn money for the business.

VII. How Is a Cash Forecast Prepared?

A. Cash forecasts can be compiled for a three month period. Each month the figures are revised as they are compared with actual results. The cash forecast should always be three months ahead of current operations.

B. Figures used in the cash forecast relate to expected cash receipts and payments.

C. Forecasting is not mere guesswork, but is based on past experience and knowledge of past performance. For example, the expected cash sales figure for a certain month is arrived at by comparing that month's sales figures for previous years, and considering price and market trends during the intervening period.

Decision-making

Change

- *The instructor should give each student a copy of the Cash Forecast Sheet. After explaining the figures for the first two months to the students, the instructor should have each student complete the cash forecast for the third month.*

  1. *The instructor will need to explain that the projected accounts receivable figure for January of $2,000 was determined in part by the firm's credit policy and by what past experience has shown will be paid by customers. The figure of $2,000 was arrived at as follows (put on chalkboard or overhead):*

     a. *The firm's credit policy to customers is that all credit purchases are to be paid within one month.*

     b. *December credit sales totaled $2,400. Experience indicates that only $2,000 of this amount will be received in January.*

     c. *The January sales forecast estimates $4,000 in total sales. It is estimated that $1,300 of that total will be cash sales, and $2,700 will be credit sales. Since one month's credit is given to credit customers, no payments will be expected from January credit sales until February. Experience shows that approximately $2,200 of the $2,700 in credit sales for January will be collected in February.*

  2. *Similar calculations are made to arrive at a figure for disbursements on accounts payable. Students should be reminded that full benefit of suppliers' credit terms should be taken.*

  3. *The cash balance for January was too large for the immediate needs of the firm. Therefore, $3,000 was invested in short-term securities (ninety days).*

Cash Forecast Sheet

	January		February		March	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
Expected Cash Receipts:						
1. Cash sales	$1,300		$1,400			
2. Collections on accounts receivable	2,000		2,200			
3. Other income	---		---			
A. Total Cash Receipts	$3,300		$3 600			
Expected Cash Payments:						
4. Disbursements on accounts payable	$1,000		$1,550			
5. Utilities	100		100			
6. Payroll	1,000		1,000			
7. Advertising	1,300		1,000			
8. Other (taxes, etc.)	50		150			
B. Total Cash Payments	$3,450		$3,800			
9. Expected cash balance at beginning of month	$7,000		$3,850			
10. Cash increase or decrease (A - B)	-150		-200			
11. Expected cash balance at end of month	6,850		3,650			
12. Desired cash balance	$3,850		$3,850			
13. Short-term loan needed (12-11, if 12 is greater)			$200			
14. Cash available for short-term investment (11-12, if 11 is greater)	$3,000					

The Lawn and Garden Shop

Wilma Meyers has just received her end of the year balance sheet and income statement from her accountant. These financial statements may be found on the following pages. Although she has never used ratio analysis before, she has decided that this year she will compare her business's performance with the lawn and garden industry averages.

She has obtained the following ratio data from her trade association which shows the industry average for each of the following ratios:

1. $\dfrac{\text{net profit}}{\text{equity}} = 14.9\%$
2. $\dfrac{\text{net profit}}{\text{sales}} = 5.0\%$
3. $\dfrac{\text{sales}}{\text{equity}} = 3.4\%$
4. $\dfrac{\text{total revenue}}{\text{average inventory}} = 9.7$ times
5. average collection period = 45 days
6. $\dfrac{\text{current assets}}{\text{current liabilities}} = 2.2$

Suggested Questions for Discussion:

1. Compute the ratios for the Lawn and Garden Shop and compare the business performance with the industry averages.
2. Determine the strengths and weaknesses of the Lawn and Garden Shop based on the information obtained from the ratios calculated.

The Lawn and Garden Shop
Balance Sheet

December 31, 19___

Assets			
Current Assets			
Cash		$1,000	
Accounts receivable	$4,000		
Less allowance for doubtful accounts	400	3,600	
Inventory		3,000	
Total current assets			$7,600
Fixed Assets			
Land		$5,000	
Building	$30,000		
Less allowance for depreciation	5,000	25,000	
Equipment	$6,000		
Less allowance for depreciation	1,000	5,000	
Total fixed assets			35,000
Total Assets			$42,600

Liabilities and Equity		
Current Liabilities		
Accounts payable	$3,000	
Notes payable	500	
Total current liabilities		$3,500
Long Term Liabilities		
Mortgage	$16,100	
Total long term liabilities		16,100
Total Liabilities		$19,600
Equity		
Owner's equity		23,000
Total Liabilities and Equity		$42,600

The Lawn and Garden Shop
Income Statement

For Period Ending December 31, 19________

Total Sales			
Cash sales		$15,000	
Credit sales		20,000	
Total Revenue			$35,000
Cost of Goods Sold			
Beginning inventory	$4,000		
Purchases	25,000		
Cost of goods available for sale		$29,000	
Less ending inventory		3,000	
Cost of Goods Sold			26,000
Gross Margin			$9,000
Expenses			
Salaries and wages		$3,500	
Utilities		700	
Advertising		600	
Depreciation		200	
Total Expenses			5,000
Net Profit Before Taxes			$4,000
Estimated Income Tax			1,100
Net Profit			$2,900

Points To Be Highlighted by the Case:

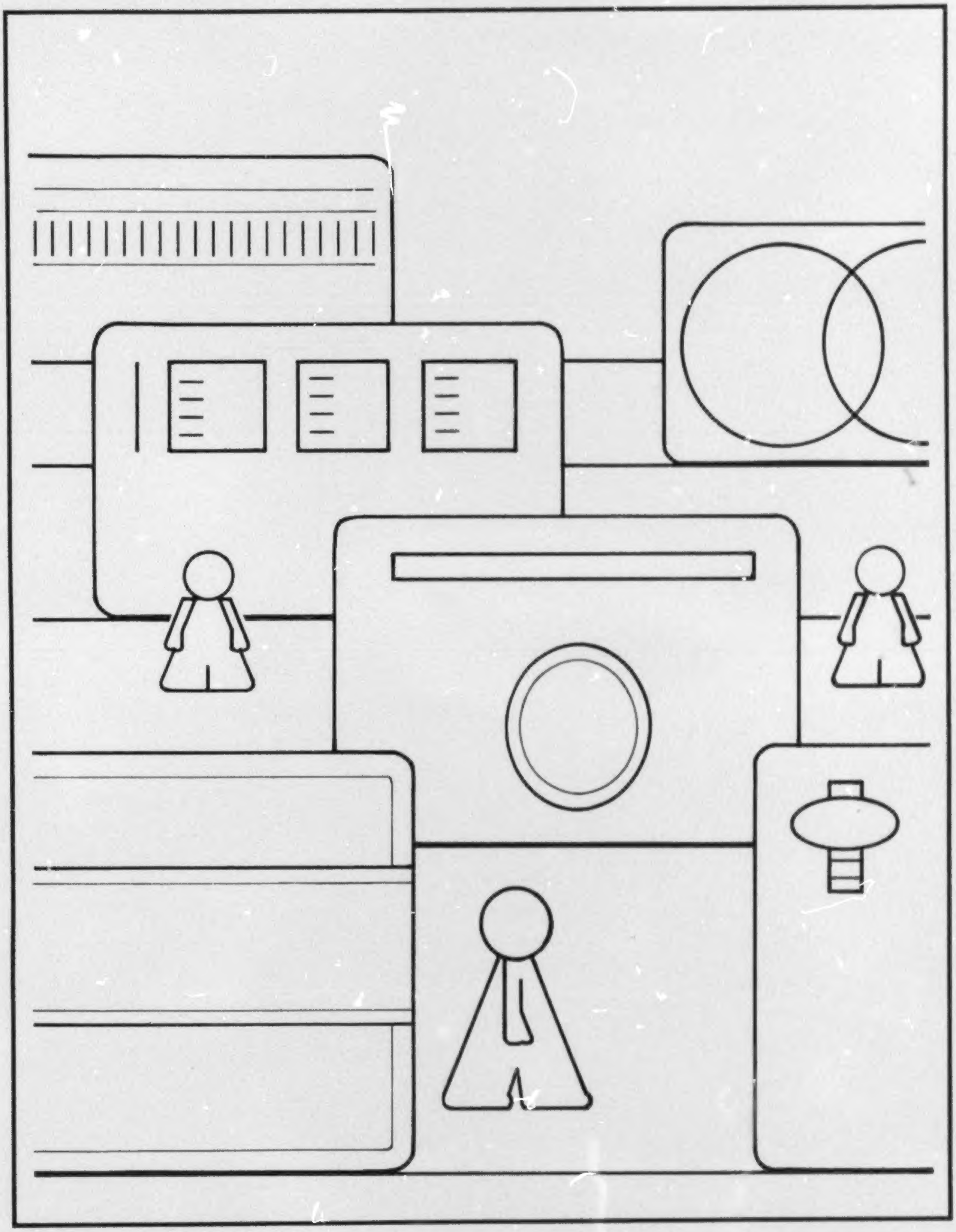
1. *Two important financial statements used by most businesses are the balance sheet and the income statement.*
2. *Ratios help indicate possible answers to important questions related to the efficiency of a business. Ratios give feedback on current operations and provide a basis for planning for the future. Comparisons of ratios for the current year should be made with the ratios of other firms in the same line of business.*

Possible Solution:

1.

	Ratio	The Lawn and Garden Shop	Industry Average
a.	$\frac{\text{net profit}}{\text{equity}}$	12.6%	14.9%
b.	$\frac{\text{net profit}}{\text{sales}}$	8.3%	5.0%
c.	$\frac{\text{sales}}{\text{equity}}$	1.5%	3.4%
d.	$\frac{\text{total revenue}}{\text{average inventory}}$	10 times	9.7 times
e.	average collection period	38 days	45 days
f.	$\frac{\text{current assets}}{\text{current liabilities}}$	2.2	2.2

2. *The following strengths and weaknesses of The Lawn and Garden Shop are based on the information obtained from the ratios calculated:*
   - a. *The net profit to equity ratio shows that the return on investment for the Lawn and Garden Shop is lower than the industry average. This low return on investment can be caused by either (1) a low gross margin or high operating costs, or (2) a low volume of sales relative to the value of the investment in the business.*
   - b. *The net profit to sales ratio shows that the margin of profit is very satisfactory relative to the industry as a whole. It can be assumed that the Lawn and Garden Shop has a sound pricing policy and that operating expenses have been kept in line.*
   - c. *The sales to equity ratio shows that the volume of sales relative to the amount invested in the business is low compared to the industry average. This low figure is the reason for the somewhat low return on investment obtained by The Lawn and Garden Shop (all other ratios are satisfactory). In order to increase this sales to equity ratio more sales have to be generated or investment in assets reduced.*



unit nine
credit and collections

Many small business owners are often apprehensive about extending credit to their customers. Since there is the risk of not receiving the money, the owner may often view credit as one problem which can be easily avoided. Yet, credit has become so much a part of the business world, that most businesses cannot realistically avoid extending credit to customers. This dilemma can be solved, or at least eased appreciably, if the small business owner understands and appreciates the value of using credit. The owner must be aware of credit and its advantages and disadvantages. Sound and realistic credit and collection policies must be established which accurately reflect the needs of a particular business.

In order to develop a credit and collection policy which fits the needs of a particular business, the small business owner will need to analyze the types of credit available for use, the costs involved in extending credit, possible rewards to the business, legal considerations, and the procedures for collecting delinquent accounts. It is the purpose of this unit to guide the small business owner through this analysis so that the business will be able to adopt a credit and collection policy which is compatible with the particular situation of the business.

Unit Objectives

- *To provide the student with the general knowledge of credit and collections.*
- *To present information regarding the advantages and disadvantages of extending credit to customers.*
- *To have students understand strategies for developing appropriate credit and collection policies.*

Student Objectives

- *Given adequate information, the student will be able to:*
  - a. *Define credit.*
  - b. *List at least two advantages of extending credit to customers and at least two disadvantages.*
  - c. *List and explain the four basic types of credit accounts that the business owner can offer customers if credit is extended and collected by the business.*
  - d. *Explain how a bank credit card can be used by a business owner to extend credit to customers.*
  - e. *Explain at least two ways the business owner can obtain information concerning the credit applicant.*
  - f. *Explain the four C's of credit and how the four C's may be used to determine credit policies.*
  - g. *Explain "truth in lending" as it affects small business.*
  - h. *List and explain the procedures for collecting delinquent accounts.*
- *Given a particular business, the student will be able to develop a credit and collection policy for the business.*

I. What Is Credit?

A. Credit is a service which allows customers to obtain goods or services from a business. The customers pay for the goods and services at a specified date in the future.

II. Should Credit Be Extended to Customers?

A. There are several advantages to extending credit:

1. **Increased sales.** Studies indicate that people tend to buy more if they can defer payment.
2. **Repeat sales.** Studies also indicate that customers will continue to shop where they have been granted credit.
3. **Builds goodwill.** Since credit is an accommodation to customers they generally have a feeling of goodwill toward the business.
4. **Provides mailing list.** Since the business has the names and addresses of past customers, an excellent mailing list for promotional purposes is established.

B. There are also several disadvantages of extending credit:

1. **Increases working capital.** A larger amount of working capital is needed in order to carry accounts receivable.
2. **Additional costs.** Credit adds to the cost of doing business. Accounts must be maintained and credit applicants investigated.
3. **Returned goods.** Credit customers have a tendency to return goods more often than cash customers.
4. **Delinquent accounts.** Since credit customers may purchase beyond their ability to pay, or with no intention of paying, some losses are certain to occur. Even if delinquent accounts are collected the cost is high.

- *The instructor may have the students react to the futuristic idea of a cashless society where all business transactions are accomplished by credit cards, account numbers, and computers. Discussion should center around how a cashless society would affect the small business.*

- *Select students to participate in a panel discussion or a debate concerning the question of whether or not extending credit to customers is a wise policy for small businesses. The students might contact local business owners for their opinions on the subject.*

III. What Types of Credit Can the Small Business Offer?

A. There are four basic types of customer credit accounts that the small business can offer if it handles its own credit sales: (1) charge accounts, (2) revolving charge accounts, (3) installment accounts, and (4) budget accounts.

1. **Charge accounts.** This plan allows the customer to purchase now and be billed at a specified time. Usually, payment is called for one month from the time of purchase, but it is customary practice to allow a longer period for payment than that stated. Since the entire bill is due at one time, charge accounts are not typically used for major purchases involving large sums of money.
2. **Revolving charge accounts.** In this plan the business grants a line of credit or ceiling amount of credit to the customer; for example, $200. The customer may charge purchases at any time as long as this limit is not exceeded. A specified percentage or minimum amount of the outstanding balance must be paid monthly with interest charged on the unpaid balance.
3. **Installment accounts.** This plan is used for long-term (usually 12 to 36 months) credit and is usually made available for major purchases involving large sums of money. A down payment of at least 20% is usually required, although some businesses sell merchandise with no down payment. A carrying charge is also added to the price. To protect the business, two forms of legal devices are available to secure the credit: the conditional sales contract and the chattel mortgage. Both of these permit the business to repossess the goods if default in payment occurs. Under a conditional sales contract the business keeps legal title to the goods until the last payment is made. When a chattel mortgage is used title passes to the buyer at the time of the sale, but the business has a lien on the goods (the right to take personal property of the debtor as payment for the debt if not paid).
4. **Budget accounts.** This plan is a form of credit which might be thought of as a short-term installment account. It is used for items which involve larger sums of money than the regular charge account, but typically less than the regular installment account. Payments are usually spread over three months with no charge for interest unless payments are deferred past ninety days.

B. To avoid the problem of collection and most of the paperwork, and still provide credit for customers, the small business may wish to use bank credit cards. The business pays approximately 4% on sales made, and pays an additional fee to join. The business also pays nominal membership advertising fees and a rental charge for imprinting machines used for recording the sales. The business turns in the credit slips to the bank and is paid cash for that amount. Bank credit cards are especially useful for a retail business. Travel and entertainment credit cards offer similar services for businesses such as restaurants and motels. Oil company credit cards are available for service station businesses. The credit card companies are responsible for collecting unpaid debts.

- *The instructor may bring in different sales contracts from local businesses to illustrate the differences between types of credit.*

- *Ask the students to decide whether their business will offer credit through bank cards or if they will handle credit by themselves. Discussion should center around the advantages and disadvantages of each method. Be sure to emphasize that bank cards are not suitable for all types of businesses.*

IV. To Whom Should Credit Be Extended?

A. When handling their own credit, the small business owners must make the initial decision of to whom credit will be extended. The logical starting point is to obtain information concerning the customer through the credit application.

B. When analyzing the credit application the four C's of credit should be considered: (1) character, (2) capacity, (3) capital, and (4) conditions.

1. **Character.** The applicant's past record of payment or nonpayment should be established.
2. **Capacity.** Even if a customer has a good credit background, he or she may not have the capacity or earning power to pay you back. The temptation of purchasing beyond his or her means is greatly enhanced when using credit.
3. **Capital.** The applicant's personal worth should be examined including savings and any other personal or real property.
4. **Conditions.** The economic conditions of the community, state, and region should be considered before credit is extended.

C. Accurate information on credit applicants can be further obtained by contacting the local credit bureau. A business need not be a member of the credit bureau to receive a credit report on an applicant, but the fee charged is considerably higher than that charged to a member.

D. It is a good policy to send "thank you" letters to all new credit customers. It not only builds goodwill, but also gives the business another opportunity to explain the credit terms which the customer has accepted.

E. It is also very important to send monthly statements to credit customers promptly. It is difficult to expect prompt payment if the bill does not arrive on time.

- *Have the students develop a list of the items of information that they would include on a credit application for their businesses. Make sure that a reason is given for each item.*

V. What Are the Legal Aspects Involved with Extending Credit?

A. The primary legal aspect is that the customer is obligated to pay for the purchases as the terms indicate.

B. The "truth in lending" law, enacted in 1969, states that the terms of credit must be clearly and concisely stated to include the finance charge (the total of all costs which the customer must pay for obtaining credit) and the annual percentage rate of interest charged. It also prohibits the use of sales contracts containing blank spaces.

C. When attempting to collect delinquent accounts, the business must meet certain requirements of the law. The business cannot use undue or continuous harassment. The business cannot send any threatening messages which imply jail sentences. It is wise to obtain legal services before establishing a collection procedure.

VI. How Can Delinquent Accounts Be Collected?

A. When a customer falls behind in payments or stops payment altogether, the small business has a severe problem. Depending on the extent of the problem it could ruin the business.

B. Many small businesses get into trouble at this point because they do not have a systematic way of handling delinquent accounts. It is suggested that the following procedures be followed:

1. If the bill is not paid within ten days of the statement, send the customer a polite reminder.
2. If the bill is not paid within fifteen days of the reminder, send a stern letter requesting immediate payment.
3. If the bill is not paid within thirty days of the first reminder, send a registered letter which gives a final payment date. The letter should state that the account will be turned over to a lawyer or collection agency if the bill is not paid
4. If the bill is not paid by that date, turn the account over to a lawyer or collection agency.

C. Caution should be taken when collecting delinquent accounts. If a good customer is temporarily unable to pay due to an emergency, it might be wise to carry the customer as long as possible. Otherwise goodwill can be damaged and a customer lost forever.

Human Relations

- *Explain to the students that a business, if it is to remain profitable, cannot extend credit to all of its customers. Yet the business does not want to lose these poor credit risks as cash customers. Have the students determine for themselves the best manner in which to inform credit applicants that they have been denied credit without damaging the goodwill of the business within the community.*

Change

- *Have each student decide what the business should do in the following situation:*

> *The business has been informed by its major supplier of merchandise that the supplier can no longer extend credit to any business. All merchandise must now be paid for upon delivery by the business. Will this affect the credit policy of the business to its customers? If the business decides it needs more working capital to pay the supplier, where can it be obtained?*

Decision-making

- *Each student should be asked to develop a complete credit and collection policy for a particular business. Reasons for their decisions should be given.*

The Shoe Tree

Pat Logan has owned and managed "The Shoe Tree," a small shoe store located in Huntsville, Illinois, for the past year. Since Pat was determined to generate a sales volume which would insure the success of the business, she has extended credit on a charge account basis to a large number of customers over the past year. If the customers looked like they would pay their bill, she extended them credit.

Unfortunately, many of the credit customers have not paid their debts. Although sales volume is high, the business is experiencing a shortage of cash. The problem has become very serious since last month Pat could barely pay the business expenses.

Suggested Questions for Discussion:

1. What changes in the credit policy of "The Shoe Tree" would you recommend?
2. How would you attempt to collect the delinquent accounts?

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Points To Be Highlighted by the Case:

1. *The small business owner must understand and appreciate the value of extending credit to customers.*
2. *Sound and realistic credit and collection policies must be established which accurately reflect the needs of a particular business.*

Possible Solution:

1. *a. If "The Shoe Tree" is to continue handling its own credit sales, information must be obtained on each credit applicant. The four C's of credit should be considered. Information can be obtained by using a credit application.*

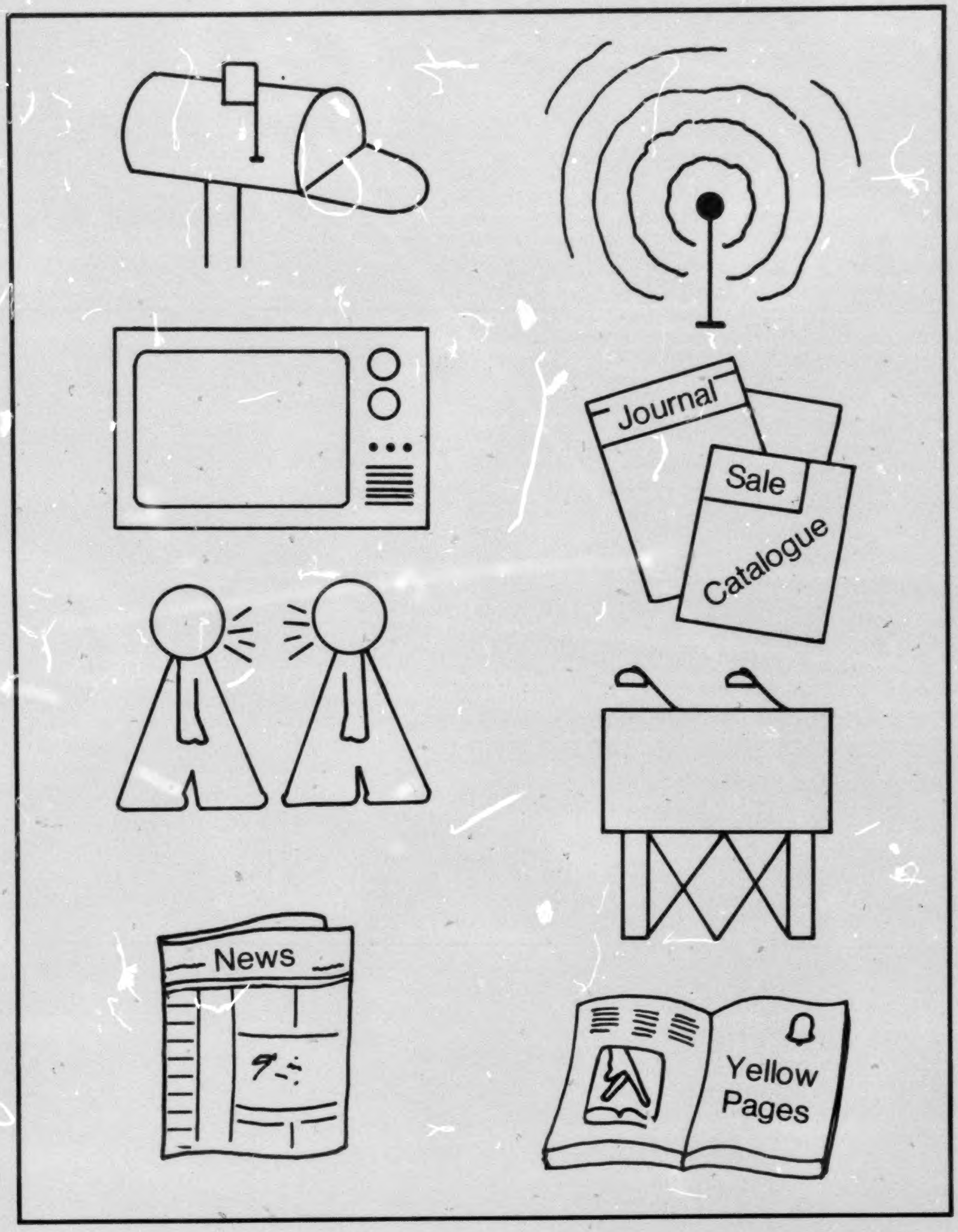
   b. The use of bank credit cards would enable the business to extend credit to its customers and also solve the problem of collecting delinquent accounts.

2. *a. If the bill is not paid within ten days of the statement, send the customer a polite reminder.*

   b. If the bill is not paid within fifteen days of the reminder, send a stern letter requesting immediate payment.

   c. If the bill is not paid within thirty days of the first reminder, send a registered letter which gives a final payment date. The letter should state that the account will be turned over to a lawyer or collection agency if the bill is not paid.

   d. If the bill is not paid by that date, turn the account over to a lawyer or collection agency.


Journal
Sale
Catalogue
News
Yellow
Pages

unit ten
advertising and sales promotion

It is no longer a question of whether or not the small business should advertise. All businesses need to advertise. But, rather, questions should be asked, such as: what should be advertised, which medium should be used, how should advertisements be designed, and when is the best time to advertise? The successful small business owner must be able to answer these questions because they affect the particular business needs and opportunities.

The students need to realize that the small business must advertise and promote its products or services if the business is to successfully compete in the business world. Business owners must acquire the knowledge and confidence to operate a successful advertising and sales promotion campaign. Effective advertising and sales promotion will pay dividends in the form of increased sales volume; but advertising and sales promotion must be approached as an expense which needs to be budgeted, like any other expense, in order to avoid overspending or underspending.

Advertising and sales promotion are effective tools which will help the small business owner operate a successful and profitable business. The students have long been on the receiving end of advertisements and sales promotion. Building on this knowledge, they need to look at the topic of advertising and sales promotion from the business owner's point of view.

Unit Objectives

- *To provide information needed to make sound decisions in matters of advertising and sales promotion for a small business.*
- *To encourage students to consider how advertising and sales promotion can be useful in different types of businesses.*

Student Objectives

- *Given a particular business, the student will be able to:*
  - *a. Explain the importance for a small business to advertise its products or services.*
  - *b. Identify the target market for a particular business.*
  - *c. Develop an advertisement for a particular business which includes the introduction, body, and closing.*
  - *d. List the various media available for advertising and explain the advantages and disadvantages of each.*
  - *e. Design procedures for determining the amount to spend on advertising and be able to justify the decision.*
  - *f. List and explain several sales promotion activities other than advertising.*

I. Why Should A Business Advertise?

A. The competition is probably advertising. If not, maybe the business can increase its share of the market by doing so.

B. Advertising will attract new customers to a business which are needed for growth and to replace lost customers.

C. A business must promote its products or services. Even the best product or service will not be bought if nobody knows about it.

D. Advertising should increase sales volume, but consistency in advertising is necessary for success.

- *Have students react to the following statement:* ***Advertising only adds to the cost of the products the consumer buys.*** *This statement should lead into a discussion of the pros and cons of advertising. Try to get the students to look at advertising from the business owner's point of view.*

II. To Whom Should The Advertising Be Directed?

A. The first step in establishing an advertising campaign for a business is to select a target market. Decide for which group the advertisement is intended (housewives, children, teenagers, etc.).

B. The geographical area in which the business wants to concentrate as well as who the target is must be considered.

- *Have students give examples of various target markets, matching products or services with different targets. (An example would be life insurance advertisements for football games on television.)*

III. What Should Be Included In The Advertisement?

A. The advertisement should tell the target market or customers what they need to know. It should motivate them to buy a particular product or service.

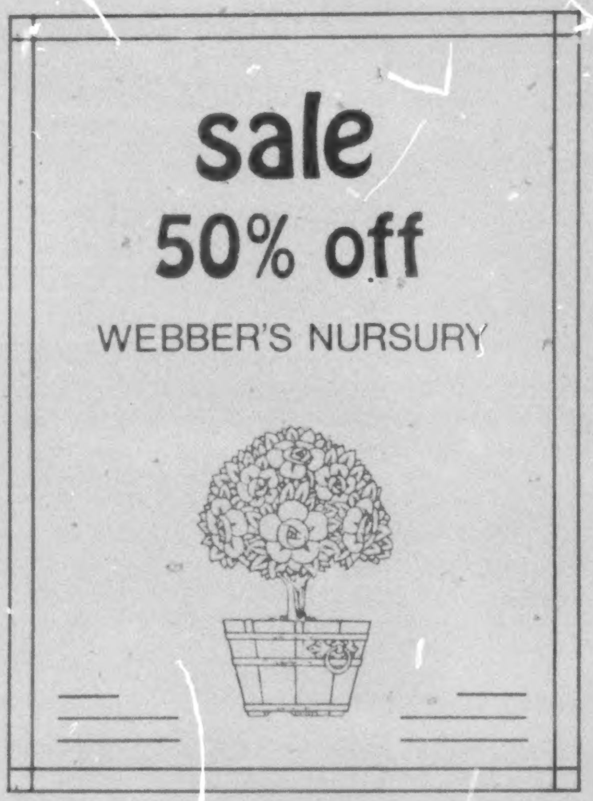
B. In general, an advertisement contains: an introduction, the body, and a closing.

1. **Introduction** — purpose is to attract attention.
2. **Body** — gives details concerning the product or service and creates an interest or desire.
3. **Closing** — calls for action, motivates customer to buy.

C. The qualities of a good advertisement are that it:

1. **Be enthusiastic**
2. **Be informative**
3. **Be simple**
4. **Be truthful**
5. **Emphasize important features**

- *Bring several advertisements to class and have the students pick out the good and bad ones explaining their choices and suggesting how they might be improved. A good source is* ***Advertising Age*** *which contains the ten best advertisements of each year. A discussion of what made these advertisements the best can be generated.*



sale

50% off

WEBBER'S NURSURY

Creativity

- *Have each student prepare an advertisement of his or her own for a particular business which includes an introduction, the body, and a closing. Each ad can be critiqued by the class to improve the quality of each ad.*

- *Cassette tapes can be made of local radio and television advertisements and brought to class for evaluation. The tapes can also be used for students to develop their own radio advertisements.*

- *Distribute the list of "Factors which enhance creativity" to the class and discuss briefly.*

Creativity

- *Display some product, an unusual item, in full view of class members. Ask the students to list on a sheet of paper as many different ideas as possible for an advertisement to market this product (slogans, captions, graphics, etc.). Stress "free wheeling"; it does not matter how unusual the idea is. Tell the students they have about eight minutes to work on ideas. After about eight minutes have them stop working and tell them to judge their creativity by the following means:*

1. **Fluency.** *The fluency score is the number of different ideas listed.*
2. **Originality.** *Each respondent reads his or her list to the class, striking off responses common to one or more other lists. The number of unique responses left is the originality score.*
3. **Flexibility.** *Flexibility is the ability to think in a wide variety of categories. Examples of categories might be humorous appeal, sex appeal, cost appeal, etc. List possible categories on the chalkboard with the help of students. One point is given for each category.*
4. **Elaboration.** *Presenting information beyond the basic idea is called elaboration (filling in the details). Score one point for each elaboration of an idea.*

Factors Which Enhance Creativity

Personal Factors

1. Curiosity — a lively interest in many things.
2. Ability to change — willingness to see other viewpoints and willingness to adopt or adapt to new situations, if necessary.
3. A desire for questioning.
4. Motivation — a strong urge to acquire new knowledge.
5. Ability to get along with people — socially and in work situations.
6. Ability to think clearly about complex problem situations.
7. Willingness to think along non-traditional lines.
8. Unafraid of being "out of step" — ability to be non-conforming, when necessary.

Environmental Factors

1. Freedom to think, feel, and act.
2. Freedom from want.
3. Non-judgmental atmosphere — non-threatening.
4. Challenging situations.
5. Freedom to develop one's own interests.
6. Unconditional acceptance of one's worth (by others).
7. Freedom from evaluation.
8. Empathy and understanding (from others).
9. Freedom to move at one's own pace.

IV. Which Media Should Be Used for Advertising?

A. The **tarket market** may have an effect on media selection. For example, teenagers might best be reached by a "rock" radio station.

B. **Word of mouth** advertising is the most important and least expensive type of advertising available to a small business. What people say to each other regarding a business can either reinforce its advertising or destroy its credibility.

C. **Direct Mail**

1. This method of advertising consists of brochures, circulars, letters, post cards, etc. which are sent directly to potential customers.
2. Direct mail should not be ignored by small businesses since it can be the least expensive means of advertising and yet the surest way of reaching the target market.
3. A target market may consist of present and past customers for which addresses are available. A list of potential customers can be obtained from the local chamber of commerce, a local newspaper, or may be bought from an organization which specializes in compiling such lists.
4. Avoid the use of "occupant" as an address. This can destroy the goodwill a business is trying to build by offering the information to a select group.

D. **Newspaper**

1. Newspaper advertising probably reaches the greatest total number of prospects and is rather inexpensive.
2. The classified section may be utilized for some advertising or for certain products. It is less expensive and often gets good results.
3. If a business is attempting to reach customers within a certain geographical area, it should use that local or neighborhood paper.
4. The cost for newspaper advertising is computed by the column inch or line. Exact costs can be obtained by working with the newspaper representative or salesperson. Obviously the more space used, the higher the costs. If space is purchased on a contract basis (promising to use a certain amount of space for a designated amount of time), the cost will be less.

E. **Radio**

1. Radio advertising as a general rule is only effective when used consistently. This if often referred to as "saturation" advertising and can be fairly expensive.
2. Small or local stations are less expensive than major stations and in some cases are better suited to reach a particular target market. It is important to know if the listeners to a particular station or show are the prospects or target market.
3. Buying radio spots (generally one-half to one minute) during the time of day when the target market is listening is important. For example, different markets may listen to early morning news broadcasts than listen to mid-morning talk shows.
4. It is a good idea to investigate how the advertisements are spaced. If they are all bunched together, a particular advertisement by a particular business may be lost in the group, and ignored by the target market.

F. **Television**

1. The cost of television advertising is usually out of the reach of most small businesses. If a small or local station is utilized, consideration should be given to the factors discussed regarding radio advertising.

G. **Outdoor**

1. Outdoor advertising may bring results and is not very expensive. Examples would be advertisements on billboards, buses, park benches, etc.

H. **Yellow Pages**

1. The yellow pages section is particularly useful to businesses which people need only on occasion such as a lawn mower repair shop.
2. The yellow pages are particularly useful to businesses which people have a need for only on occasion such as a lawn mower repair shop.

I. **Trade Journals**

1. Manufacturing and wholesale businesses may find that advertising in the trade journal for a particular industry is an effective means of reaching a target market; for example, retail businesses.

- *Have students match various target markets (teenagers, housewives, etc.) with the media which would be most effective. This discussion should not overlook the cost factor involved. Remind the students that the goal is to reach the most potential customers within the target market for the lowest cost.*

- *Obtain costs for advertising in the various media within your community and discuss the costs with the class. This will add realism to the topic.*

V. How Much Should Be Spent on Advertising?

A. There is no one correct answer to this question. Four common answers include:

1. Spend all that can be afforded.
2. Spend the same amount as the competition.
3. Spend a certain percentage of sales.
4. Spend only what is necessary.

B. The amount spent should be that amount which results in the highest profit. In order to know what that amount is, advertising costs must be budgeted, kept track of, and results evaluated.

C. One way to evaluate advertising results in general is to watch the sales figure. If sales increase as a result of advertising, then it is paying off. When the point is reached where the extra cost of more advertising is greater than the increase in sales, then the business is spending too much on advertising. Another way to evaluate advertising is to ask customers where they found out about the product or service. Counts can also be taken before advertising and after advertising to measure sales volume.

- *Have the students develop an advertising budget for a particular business giving reasons for their decision.*

VI. What Can Be Done to Promote a Business Besides Advertising?

A. **Window Display**

1. This is an important means of promotion to the small business which is well within its financial means.
2. It is possible to get ideas from a window display firm or free of charge from display magazines.
3. Be creative. The business can buy inexpensive materials to highlight holidays and community events.
4. To provide variety and a "new look" to a retail store, a window display should be changed at least every month.
5. An art student from the local high school may be helpful in preparing window displays.

B. **Interior Display**

1. The following suggestions for interior display might be helpful:
   a. Relate displays to other types of advertising being used.
   b. Place displays at strategic points (near entrances, at cash registers, on aisles, etc.)
   c. Use displays which relate to seasons, the weather, and the holidays.

C. **Other Promotions**

1. Methods of promoting your products or business other than display and advertising might include:
   a. Fashion shows
   b. Demonstrations
   c. Free samples
   d. Premiums or coupons
   e. Trading stamps
   f. Contests or games
   g. The use of a logo or symbol which will aid customers in relating products or services to a particular business

- *Have students develop a total sales promotion campaign to include advertising, display, and any other means of promotion that could be useful in promoting a particular business.*

- *Divide the class into two groups, each representing a business, to develop an advertising and sales promotion campaign for a computer lawn mower. This lawn mower is programmed to cut the grass by itself after just one mowing. (Another product can be used, as long as it is not already on the market.) The cost of the computer lawn mower is $500. Each business has been given $1,000 by the supplier to use for promotion of the product. This $1,000 is the limit for promotional spending. Each business is in competition with the other. Estimates indicate that the market can absorb approximately thirty mowers. A good advertising and sales promotion campaign should include the following:*

Decision-making

Creativity

Change

1. *Selection of target markets.*
2. *Selection of proper media to reach target markets.*
3. *Awareness of cost factors (only $1,000 to spend).*
4. *Creation of a good advertisement.*
5. *Alternative means of promotion.*

This activity should take approximately one hour. Thirty minutes should be given each group for preparation and thirty minutes for presentations and discussion. If the groups are too large, use two products and four groups. The instructor may want to assign the project at one class meeting and ask that the presentations be made at the next class meeting.

Johnson's Sporting Goods

Johnson's Sporting Goods is a retail store which carries top quality sporting goods. It is located in a college town of 50,000 people. Until recently, Mr. Johnson had enjoyed a great deal of success. His had been the only sporting goods store in town. Mr. Johnson felt that advertising was a cost he could not afford, and relied on word of mouth promotion as his only means of promotion.

Six months ago a new sporting goods store was opened across town. This competitor had done a great deal of grand opening advertising in the newspaper and on local television and radio. Since then, the new store had continued to advertise heavily. Cost seemed to be of little concern to them. The store was part of a chain owned by a large corporation. After some research, Mr. Johnson found out that it has always been their policy to advertise heavily. It seemed clear to Mr. Johnson that they were trying to advertise him out of business. Mr. Johnson knew that he would have to start spending some money on promotion, but he could affort to spend only a fraction of what the competition was spending.

Suggested Questions for Discussion:

1. Does Mr. Johnson need to promote his business? Can he afford the additional expense?

2. What suggestions do you have for Mr. Johnson to promote his business and products?

Points To Be Highlighted by the Case:

1. *Advertising and sales promotion is a necessary expense for any business.*

2. *Advertising and sales promotion should be directed toward a specific target market.*

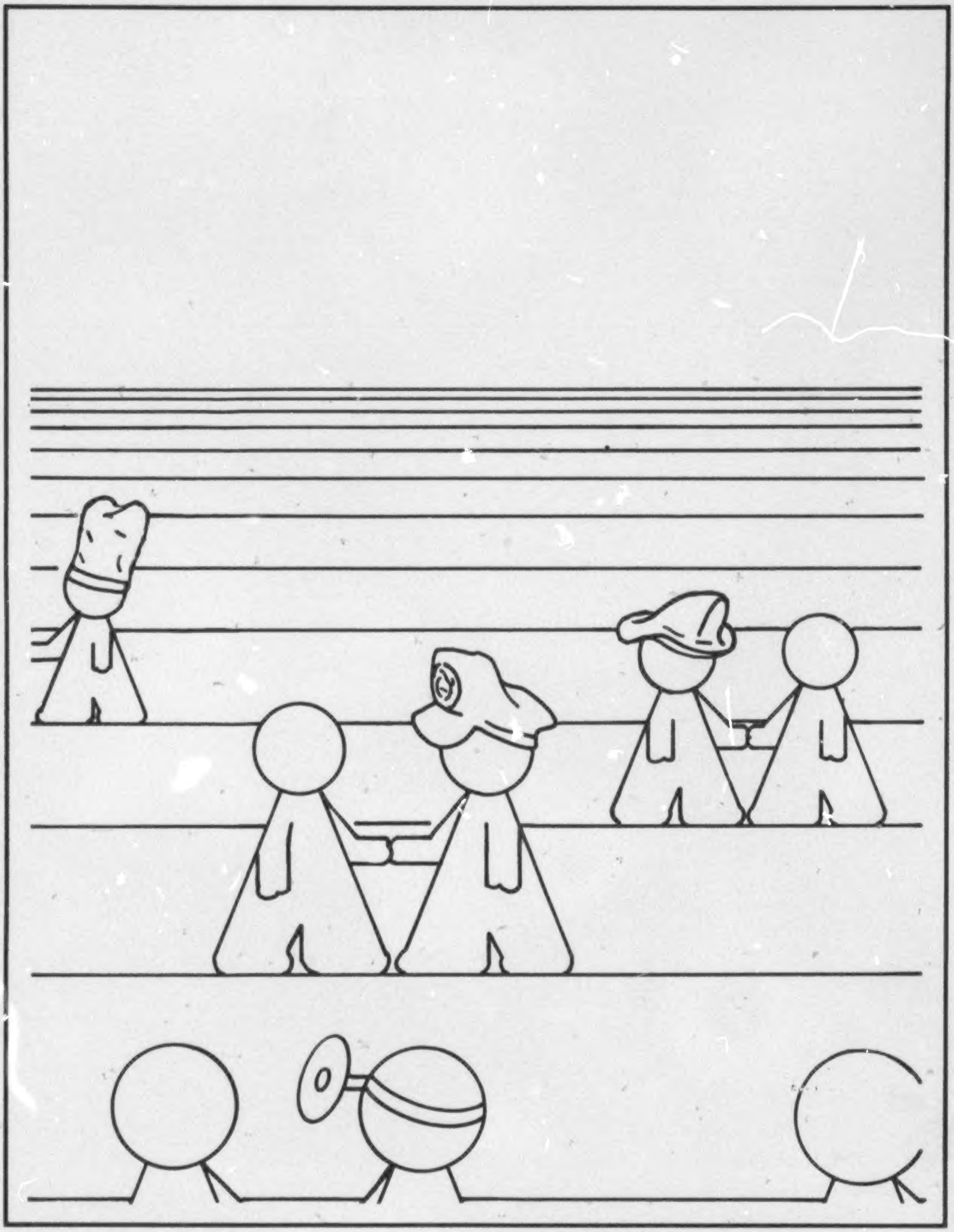
3. *Since there are several methods available for promoting the business and its products, advertising and sales promotion does not have to be a large expense.*

Possible Solution:

1. *Mr. Johnson, like any business owner, needs to promote his business. Since his has been the only sporting goods store in town until now, Mr. Johnson has not had to spend money on promotion in the past. However, the business was probably losing sales as a result of not promoting its products. The business is now in a position where it must spend some money on advertising and sales promotion in order to compete.*

2. *Mr. Johnson needs to identify his target market and direct advertising and sales promotion toward that group. The target market for Johnson's Sporting Goods may be college students. Since Mr. Johnson has a limited advertising and sales promotion budget, he may elect to use any or all of the following suggestions:*

   a. *Yellow pages of the telephone directory*
   b. *Direct mail*
   c. *Newspaper (the college newspaper may best reach his target market.)*
   d. *Contests (drawings, games, etc.)*
   e. *Sponsor a local athletic team by offering free uniforms with the business name appearing on them.*



unit eleven
employee and community relations

As entrepreneurs go about their jobs of operating a business, they are not always conscious of the communications and interaction which is developed with both employees and customers. Certainly, they are aware that they give directions and instructions to the employees as the day progresses, and that they meet and talk to customers throughout the day. But successful entrepreneurs do more than pass routine directions on to their employees, and more than just talk to their customers about products. Entrepreneurs should be fully aware that their business operation must be founded on good human relations principles. If the owner wants the business to operate at its full potential, real communication must be established between management, employees, and the customers.

In order for employees to put forth a sincere effort they must feel as though they are an integral part of the business. They must feel that their opinions are listened to, and that it is beneficial for them to do more than merely put in their time. While customers may randomly choose to patronize the business, it is not this type of customer that will build a successful operation.

The business must develop a following of repeat customers. In order to keep people coming back, as well as attracting new customers, it is essential that there are good relations between the customers and the business.

The success of a business is often a result of the image that it projects to the customer. This image is directly related to the atmosphere created within the business. An atmosphere of openness, honesty, and genuine interest in the customer cannot be created by employees unless they are dealt with in a similar manner by management.

This unit will suggest procedures for establishing a positive atmosphere within the business. The establishment of good employee and community relations is essential for success in business.

Unit Objectives

- *To illustrate the importance of employee relations to a business.*
- *To provide suggestions for establishing good employee relations within a business.*
- *To emphasize the importance of community relations to a business.*
- *To provide suggestions for establishing good community relations.*

Student Objectives

- *Given a list of various leadership characteristics, the student will be able to:*

  a. *Identify five of the most important characteristics of a leader and justify why each of the characteristics are important.*

  b. *Determine which of these leadership characteristics the student possesses and which ones the student needs to develop.*

  c. *Develop a written plan for personal attainment of these characteristics.*

- *Given a list of factors which are important to good employee attitudes on the job, the student will be able to rank the various factors as to their importance.*

- *Given a particular business, the student will be able to develop a list of ten personnel rules, which will serve as the basis of the business' employee relations program.*

- *Given various employee relations problems, the student will be able to determine the best ways to handle the problems.*

- *Given several reasons why customers elect to patronize a particular business, the student will be able to develop strategies that might attract customers to the business.*

- *Given a list of questions concerning community relations, the student will be able to answer the questions in relation to the operation of a particular business.*

- *Given a list of activities for a variety of community organizations, the student will be able to determine three specific ways the business person's expertise could be of assistance to each organization.*

- *Given a particular business, the student will be able to determine which activities or duties could be delegated to employees.*

I. Is Employee Relations Really Important?

A. Many studies show that employee relations is one of the primary reasons for success or failure of a business.

B. The way in which the owner manages employees is called leadership. Leadership in the small business is the art of getting employees to do tasks willingly with sincerity and with commitment.

C. Poor employee relations can cause a high rate of employee turnover. The time and money spent training new employees represents a substantial expense to the business. It is important to the success of the business that good employees are retained.

- *Distribute copies of the following Leadership Characteristics Sheet to all of the students. Instruct them that they are to do the following:*

  a. *Select the five most important characteristics.*

  b. *Check those characteristics that they feel they possess.*

  c. *Circle those characteristics that they feel they need to develop.*

Self-image

Leadership Characteristics Sheet

Below is a list of leadership characteristics which might be used to describe a successful entrepreneurial manager. Select from this list the five characteristics which you feel are the most important for a leader to possess. Rank the five characteristics in order of importance. Review the listing again. Check those characteristics which you believe you possess. Circle those characteristics which you need to develop.

Initiative

Interest in people

Well organized

Drive and enthusiasm

Intelligence

Emotional stability

Cultural interests

Communications ability

Loyalty

Independence

Sense of humor

Good socializer

Respect in community

Self-confidence

Knowledge of the business

Awareness of local issues

Physical health

Financial independence

Plan for Personal Development

Desired changes in personal development that are unplanned are rarely realized. Use the following form to plan the development of those characteristics which you circled in the previous activity (those leadership characteristics which you need to develop). You may wish to add characteristics which were not identified in the previous activity. Keep this sheet and refer to it regularly. Modify the list when necessary.

Characteristic	Plan for Development	When This Will Occur
1.		
2.		
3.		
4.		
5.		

II. How Can Employees Be an Integral Part of the Business?

A. Employees must feel that they are an integral part of the business. This can be accomplished by giving employees responsibility, recognition and reward. Employees must be shown that the success of the business depends on them and that the future of the business is closely related to the employees' future.

B. In order to do a good job, the employees must know what is expected of them. Good communications must be established between managers and employees.

- *Many studies have been conducted pertaining to factors important in developing good job attitudes. Results of research studies vary somewhat, but money and other "logical" items are not usually highly rated. According to the Small Business Administration the following items are important to group morale:*

Human Relations

Ranking	**Item**
1.	*Security*
2.	*Interest*
3.	*Opportunity for advancement*
4.	*Appreciation*
5.	*Company and management*
6.	*Intrinsic aspects of job*
7.	*Wages*
8.	*Supervision*
9.	*Social aspects of job*
10.	*Working conditions*
11.	*Communication*
12.	*Hours*
13.	*Ease*
14.	*Benefits*

- *Before presenting the above list to the students, have students prepare their own list. Have students rank, in descending order, those factors which they think contribute most to group morale. After students have completed their lists, the instructor can present the above list. A comparison discussion of these factors should follow.*

Human Relations

- *Have the students determine their "ten commandments" of management-employee relations. These ten rules should form the basis of personnel policy for a business. Students should then present their lists to the class. From these lists a comprehensive list of rules pertaining to personnel problems might be developed.*

Creativity

C. An operations manual which contains job descriptions for every position within the business should be available for employees to review. An employee handbook which lists rules, regulations, and employee benefits should also be available.

D. In order to devote most of their time to management activities, it is necessary that owners use their time effectively by delegating responsibility and authority whenever possible. Due to the independent nature of the entrepreneur, delegation is often difficult. However, successful management of the business depends to a great extent on management of time.

- *Using the overhead projector or chalkboard, the instructor may show the class the following chart. Students should detail their use of time during an average day. Next, ask the students to determine which activities or duties could be delegated to employees. It has been suggested that duties which consistently take up more than one hour of time each day should be delegated.*

Management of Time

	Things I Do	How I Do Them	Why I Do Them
8:00			
8:30			
9:00			
9:30			
10:00			
10:30			
11:00			
11:30			
12:00			
12:30			
1:00			
1:30			
2:00			
2:30			
3:00			
3:30			
4:00			
4:30			
5:00			

III. Why Is Community Relations Important?

A. Good business-community relations are necessary for establishing a positive image within the community. The image created will have a great effect on the amount of business that is generated.

IV. Why Do Customers Select Particular Businesses?

A. Why do customers elect to patronize a particular business? This is a question that the small business owner should be able to answer if the business is to be competitive.

B. The following are motives that encourage a customer to buy at one business rather than another:

1. Convenience
2. Variety of selection
3. Price of goods or services
4. Quality of goods or services
5. Courtesy of employees
6. Integrity of the business (reputation for fairness)
7. Services offered (delivery, credit, returned goods, etc.)
8. Atmosphere or environment of business

- *Have the students divide into small groups by type of good or service being sold. Each group should discuss the motives listed above and develop strategies that might be used to attract customers to their businesses by the use of these motives. Each group should then present their strategies to the class.*

Decision-making

Creativity

V. How Can the Business Promote Good Community Relations?

A. Make sure the business is a friendly place. This will create goodwill and the customer will have a positive attitude about patronizing the business in the future.

B. Respond to customers promptly and courteously.

C. Take a genuine interest in the customer's needs and wants. This is one area where small business has an advantage over larger competitors.

D. Most customers expect a business to be clean and neat. Displays and merchandise should be fresh and interesting.

E. Become involved in community affairs, and have the business help promote community activities.

F. Small business owners become so involved in the daily operation of their business that they do not participate in community activities. Not only can persons in business serve their community, but goodwill is also created by demonstrating an interest in the community and the community's future.

- *Students should list the community activities in which they participate, and also list community activities or organizations to which they could contribute some expertise or knowledge.*

Self-image

Achievement

Organizations and Activities (Community, school, work)	*Presently Participate*	*Could Participate*

Self-image

Human Relations

- *To get students to examine their own attitudes in the area of personal relationships, each student will be asked to answer the following questions either "YES" or "NO" and give reasons for their answers. After the students have individually answered the questions, the instructor can initiate a class discussion on the relative importance of each item.*

1. *Would you have a policy for the business concerning good community relations?*
2. *Would you constantly guard against business activities conflicting with the public interest?*
3. *Would you know each of the groups which make up an important segment of your firm's clientele?*
4. *Would you take regular steps to see that each group receives the attention that it deserves?*
5. *Would you maintain good relations with regular employees as well as temporary help?*
6. *Would you have an established system for informing employees of your firm's objectives and policies?*
7. *Would you try to keep informed of what the public thinks of your business?*
8. *Based on information received from various sources, would you try to make improvements in the business?*
9. *Would you make a continuous effort to establish good community relations or merely be involved in these activities periodically?*
10. *Would you insist that all of your business actions be completely honest?*
11. *Would you remind your employees that selling, serving, and good community relations are inseparable aspects of a business?*
12. *Would your premises be well kept and appealing to customers?*
13. *Would you have a policy of encouraging your employees to be active in community organizations of their choosing?*

Roy's Auto Repair

Mr. Roy Jones is the owner and manager of a fairly large automobile repair shop which employs ten full-time mechanics and three full-time body and fender specialists. Mr. Jones opened the shop about eight months ago, and the operation ran fairly smoothly for about six months. However, during the last two months Mr. Jones has noticed a change in the attitudes of the employees. Mr. Jones has begun to notice that his employees have been spending a lot of time talking instead of working. At the end of the day they leave their work area without cleaning up their mess. The quality of their work has decreased, as evidenced by the increasing number of dissatisfied customers. The frequency of employees being absent from work has begun to increase. Two good mechanics quit during the last month, causing the rate of completed work to drop while replacements for the mechanics were being sought.

Mr. Jones serves as the general manager of the entire operation, and every employee reports directly to him. Each employee must check with Mr. Jones before proceeding with any work. Mr. Jones feels that by requiring each employee to check with him before working on a car, he can keep in better touch with the work that is being done and avoid errors made by his employees.

Each employee receives the same beginning wages, and raises are given uniformly for each year of service with the business. Within the organization all employees are ranked the same and treated equally. Mr. Jones feels that if each employee receives the same wage, and no one employee is in a position to supervise any other employees, problems resulting from jealousy among employees will be avoided. Since Mr. Jones pays his employees the going rate for mechanics and he has eliminated competition between them, he cannot figure out why his employees are becoming dissatisfied with their jobs.

Suggested Questions for Discussion:

1. As a manager list the major problems facing Mr. Jones.
2. State two possible reasons for each problem and offer solutions to alleviate each problem.

Points To Be Highlighted by the Case:

1. *Employee relations is extremely important to the successful operation of a business.*

2. *Employees must feel that they are an integral part of the business.*

3. *Delegation of authority is a necessity in any business.*

Possible Solution:

1. *The problems can be attributed to decreasing employee morale over the past two months:*

   a. *Employees are spending too much time talking instead of working.*

   b. *Employees are failing to maintain the neatness and cleanliness of their work areas.*

   c. *The quality of work is decreasing, which is resulting in dissatisfied customers.*

   d. *The rate of employee absenteeism is increasing.*

   e. *The rate of employee turnover is increasing.*

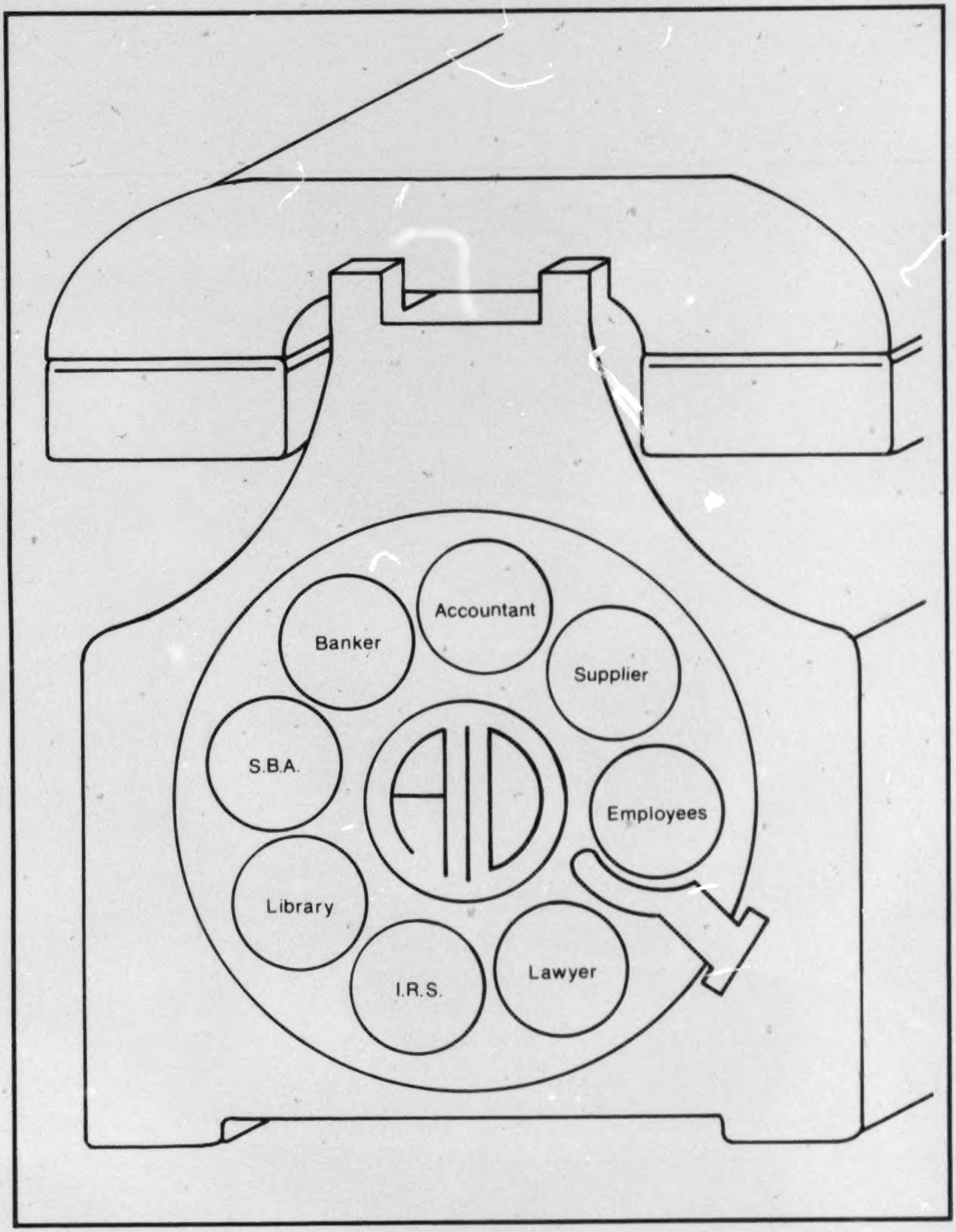
2. *Two possible reasons for the poor employee morale at Roy's Auto Repair are:*

   a. *Mr. Jones does not delegate any authority and responsibility to his employees.*

   b. *There is no opportunity for employee advancement.*

Mr. Jones can begin to delegate authority and responsibility to his employees by allowing them to begin work on their own, without first checking in. In order for employees to put forth a sincere effort, they must feel as though they are important. Employees must be given an opportunity to become an integral part of the successful operation of the business.

It is important that employees be treated with equal fairness, but employees must also be given an opportunity for advancement. It is important for employees to be able to view their own future growth as it corresponds with the growth of the business. Mr. Jones should probably indicate a system of promotion and advancement based on employee performance. Promotions might include greater responsibilities and rank as well as monetary rewards.


Accountant
Banker
Supplier
S.B.A.
AID
Employees
Library
Lawyer
I.R.S.

unit twelve

obtaining information and assistance

Statistics show that many small businesses fail within the first few years of operation. Many of the problems causing, or attributing to small business failure could be overcome, if the owners had information and assistance in their problem areas. Information and assistance are available, but all too often the owners are either not aware of it, or are unwilling to take advantage of it.

Desire and opportunity to start a business will not automatically guarantee success. Small business owners do not normally have the knowledge necessary for understanding and operating all aspects of a business operation.

To operate profitably, small business owners must have a great deal of knowledge. The small business owner is at a disadvantage in this regard. Big business has management specialists throughout the organization. However, small business owners must be fairly competent in **all** aspects of business operation. It is, therefore, essential that small business owners receive as much information and assistance as possible.

The purpose of this unit is to indicate the potential sources of information and assistance. Equally as important, the unit is designed to encourage owners and potential small business owners to utilize these sources to their best advantage.

Unit Objectives

- *To illustrate the available sources of information and assistance for owners of small businesses.*
- *To encourage the students to take advantage of available information and assistance when starting a business.*

Student Objectives

- *Given information regarding sources of information and assistance, the student will be able to:*
  - *a. Identify personal strengths and weaknesses which would affect the operation of a business.*
  - *b. Explain why assistance and information from outside sources are important to success in operating a business.*
  - *c. List and explain at least three reasons why persons in small business fail to obtain information and assistance from outside sources.*
  - *d. List ten sources of information and assistance and explain their value to small business owners.*

I. Why Do All Small Businesses Need Help?

A. The high mortality rate among small businesses is a primary reason why the owner should seek help whenever possible.

B. Small business owners, especially in the beginning, should recognize that they have limited management ability and experience. In order to compensate for this, they need to turn to sources of information and assistance for help.

C. Almost all small business failures result from management mistakes and errors. Due to its limited capital situation, the small business cannot afford major errors in management. However, most small business owners rely on their own judgment to solve a problem, even if they lack knowledge in the problem area.

- *Have each student develop a list of prominent causes of small business failures. Then have each student determine the aspects of business operation from the list in which they are competent, and those aspects in which they would need additional information and assistance. From these individual lists, a comprehensive list can be developed on the chalkboard. This activity could lead into a very good discussion to make the point that all persons in a business need help in areas relating to the operation of a business.*

II. Why Don't Small Businesses Receive Help from Outside Sources?

A. In many cases owners and managers are unaware that information and assistance are available to them.

B. In many instances, small business owners are unwilling to seek help that they need. Although this might be attributed to their independent nature, the attitude that they can be successful without any help or additional information must be changed. The small business owner must realize that it is not possible to be an expert in all facets of the business operation.

C. Many times small business owners claim they cannot find time to obtain information and assistance. This usually results in decisions which adversely affect profits. Time must be set aside to obtain the necessary information and assistance so that sound decisions can be made.

D. Most small business owners contend that they cannot afford to obtain outside assistance. They consider it an expense which is unnecessary. However, it really is a case of spending money to make money. In addition, much of the information and assistance is available at no cost to the business.

III. Where Can the Business Receive Assistance?

A. The following people can offer valuable information and assistance: employees, customers, suppliers, and other business owners.

1. **Employees.** The people who work for a business have answers to some problems of a business. Owners should ask employees for their advice and assistance. Information on items which are selling well, stock position, and customer attitudes is available from employees. They are in a good position to give advice, but they must know that their opinions and ideas are valued by the business.
2. **Customers.** These people are in a position to give information on the products and services they buy from a business. Business owners should ask customers for the information. There is not a better source for information regarding the competitive strengths and weaknesses of a business.
3. **Suppliers.** Since a supplier's success depends on the businesses being served, the supplier is vitally interested in the operation of the business. Many suppliers are in a position to give sound management advice. The supplier's representatives should be able to explain what services can be provided to a business.
4. **Other business owners.** Most businesses have common problems and the owners may be willing to discuss these problems. To a great extent, the competitive atmosphere of a business has not stimulated this type of relation. Many businesses are finding that by sharing their ideas concerning their problems, they can all improve their business operations.

B. Professionals, including lawyers, accountants, bankers, and management consultants, can give valuable advice to a business.

1. **Lawyer.** A lawyer is a must for handling legal problems of a business. A lawyer can also help a business avoid problems. A lawyer can offer advice on such problems as: taxation, organiza-

tional structure of the business, and government regulations and ordinances.

2. **Accountant.** An accountant can do more for a business than just prepare the financial statements. Because of continued exposure to businesses with similar problems, an accountant can suggest ways to improve the financial position of a business.

3. **Banker.** A banker should be consulted more often than just when a business needs a loan. The banker is in a position to offer valuable information on economic conditions and trends within a community, and is able to offer management and financial advice.

4. **Management consultant.** Small management consulting firms may offer information and assistance to businesses regarding specialized problems. Most consulting firms will quote the small business a fee for a specific job to be accomplished.

C. **Educational Institutions.** There are various management training programs which are available to small businesses. Two examples would be the Small Business Administration Co-sponsored Administrative Management Courses (contact the nearest SBA field office for details) and adult education classes offered by many high schools and community colleges.

D. Business associations can offer information and assistance to small businesses. Examples would include the local Chamber of Commerce, trade associations, credit bureaus, and the Better Business Bureau.

1. **Chamber of Commerce.** The local chamber of commerce offers information from most government agencies, and gives the small business owner a chance to become acquainted with other business owners.

2. **Trade associations.** Although many small business owners belong to trade associations, few obtain all of the assistance and information that they are entitled. Most trade associations hold meetings to discuss issues, problems, and trends within a particular trade. Bulletins and journals containing valuable information are usually available to members. Considering the many services offered by most trade associations, it is important for the business owner to belong to this organization.

3. **Credit Bureau.** The local credit bureau can be of great help in evaluating credit applicants. This service saves the small business owner much trouble and worry.

4. **Better Business Bureau.** Checking with this organization before doing business with a firm can save the business owner time, worry and trouble in the long run.

E. Government agencies can be of great assistance to small businesses.

1. **Small Business Administration.** One of the most helpful agencies to small businesses is the Small Business Administration. Its purpose is to offer financial and management assistance and information to small businesses. The goals of the SBA are accomplished through:

   a. Guaranteeing various types of small business loans.

   b. Providing management assistance (courses, workshops, conferences, clinics, etc.)

   c. Publications. The SBA issues several series of publications which have proved to be valuable to the small business owner. These publications include the *Small Marketer's Aids* and *Management Aids* for small manufacturers.

   d. Service Corps of Retired Executives, S.C.O.R.E., is a volunteer organization co-sponsored by the SBA which provides free management counseling to small businesses.

2. **Internal Revenue Service.** Although the IRS is predominantly concerned with collecting taxes, it is a good source of information and assistance concerning taxes.

3. **Bureau of the Census.** Every business owner should become familiar with the types of information collected and published by the Bureau of the Census. Census data can help answer such questions as:

   a. Where are potential customers located?

   b. What is the income of potential customers?

   c. What is the age, sex, marital and employment status of the potential customers?

   d. Is the number of people in a particular market increasing or decreasing?

   The Bureau of the Census publishes the *Census of Business*, which contains information on the wholesale, retail, and service trades. By using business census figures the owner can answer such questions as:

   a. In which merchandise lines or services are competitors making their greatest sales volume?

   b. When should a seasonal increase or decrease in sales be expected?
   c. How does a particular business compare with similar businesses regarding sales volume?

4. **Public library.** There is a wealth of information available free of charge for the business owner at the local library. Librarians can make suggestions and locate materials and references which would be helpful to persons in business.

- *Have a student contact the nearest Small Business Administration office regarding those areas of help available to the small business owner. The student should present the findings to the class.*

- *Have a student contact the local chamber of commerce regarding those areas of help available to the small business owner within the community. The student should present the findings to the class.*

- *Have students write letters to the various government agencies, other than the Small Business Administration, concerning the types of information and assistance which are available to small businesses.*

The Crafts Shop

Mrs. Smith has spent many years producing gifts and arts and crafts for her family and friends. She belongs to a county arts and crafts organization and has many friends who also produce hand crafted items. Since her children have grown, she has had more and more time to devote to her crafts. In fact, she began producing far more craft items than she could use. Soon she began to trade craft items with her friends. She began going to craft shows and exhibiting and selling her wares. She found that her products sold well, but she and her friends could still make items faster than they could sell them. She then decided to approach local merchants to determine if they would sell some of her crafts. Some merchants indicated they would, but only on a small scale.

At this point, she reached a turning point in her approach to the sale of her crafts. She could make her items faster than she could sell them at craft shows, to friends, through local merchants, or through trading. She felt that the only way to sell the crafts that she and her friends produced was to open a crafts shop designed to sell only crafts and craft supplies.

She talked to her friends and they all agreed it was a great idea. Her husband also thought it would be a profitable business venture because there were no craft shops in the area. Mrs. Smith decided to go into the business of selling her crafts as well as the craft products of her friends. She also decided to handle a small amount of craft supplies.

The first problem she had was to decide on a location for the shop. She looked at several sites in town and also looked at several surrounding towns where she might locate. After considering the different towns, site locations, and the cost of the different locations, she decided to build a shop on her own property. The property is located on a secondary highway approximately one mile from one of the largest parks in the state. The shop would be built by her husband, and would be 25 feet by 25 feet in area and would contain a second story storage loft. The building would contain its own heating unit as well as its own utilities. Mr. Smith estimated the cost, not counting the cost of his labor or his son's, would run approximately $5.00 per square foot. The total cost would be $6,875. He also anticipated obtaining a natural gas permit for heating purposes. Mr. Smith laid the foundation and began to build the new shop. He started the building in March and by June he had the frame up and was starting on the siding.

Mrs. Smith began questioning Mr. Smith as to a timetable of completion for the shop. Mr. Smith indicated it would be finished by Christmas. Mrs. Smith argued that by Christmas she would have lost all of the summer business from the park tourists as well as the rush of the Christmas season. She considered these times would be peak business times for the shop. Mr. Smith indicated he understood what the problem was, however, with his job and other activities to which he was committed, it was impossible to get the job done any sooner.

About this time the construction bills started arriving for the building materials and supplies. They were far in excess of the amount the Smiths had anticipated. Mrs. Smith questioned Mr. Smith about the costs and asked whether he was aware of the extent of the accumulating costs. Mr. Smith replied that he wanted the best materials in the building and didn't ask what they cost. He had simply asked the lumberyard to put the materials on his bill.

Mr. Smith applied for his natural gas permit and purchased and installed the gas heating unit in anticipation of the approval of the permit. The permit was turned down by the gas company. The utility officials informed Mr. Smith that they were accepting private home applications but not business applications. Mr. Smith was forced to adapt his heating unit to a more expensive propane gas heating unit.

The building was finally completed in January and Mrs. Smith began her craft store operation. Her sales were somewhat lower than she had anticipated, and she realized that she was going to have to advertise extensively to bring in customers. Also, Mrs. Smith had not paid off the bills from the construction of the shop. The total cost of the building came to $8.00 per square foot instead of the estimated $5.00 per square foot.

By May, the bulk of the bills were still unpaid and suppliers were pushing for their money. Mrs. Smith began to realize that the sales were not generating enough cash to pay all the existing and past due bills. A representative from the State Revenue Office paid the Smiths a visit because they had not registered and posted bond as a retailer as required by law in the state. What had started out as a simple idea for a craft shop turned out to be a maze of financial and legal problems.

SuggestedQuestions for Discussion:

1. What did the Smiths do wrong?
2. Should the Smiths stay in business?
3. What are three possible reasons why the Smiths did not seek help?
4. List eight possible sources that the Smiths could have turned to for information and assistance regarding their problems.

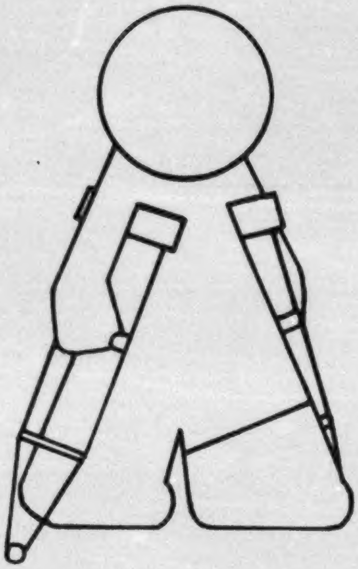
(cover copy below when xeroxing case)

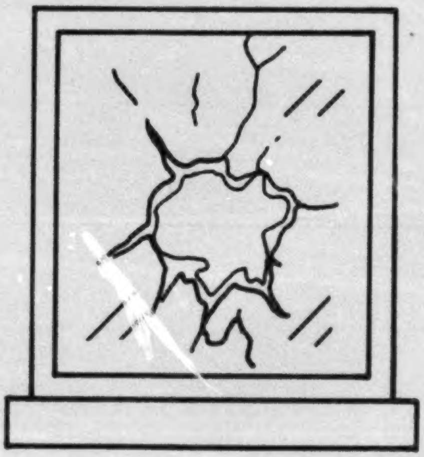
Points To Be Highlighted by the Case:

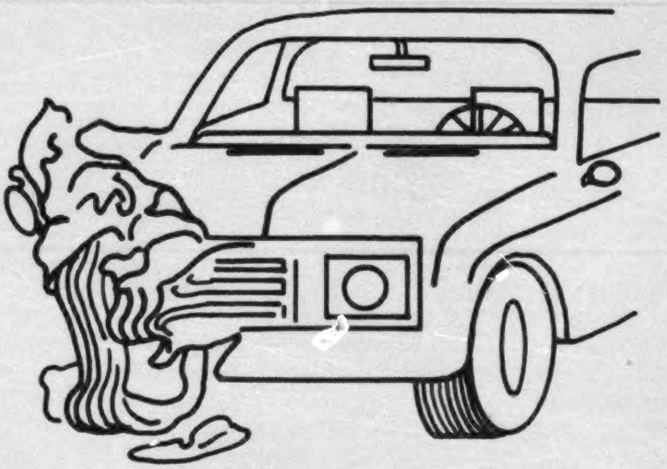
1. *The failure to obtain information and assistance is a promiment cause for failure among small businesses.*
2. *Information and assistance are available to the small business from many sources.*

Possible Solution:

1. *The Smiths failed to seek any information and assistance to make plans for the successful establishment and operation of the business.*
2. *Whether or not the Smiths should stay in business depends on how much time, effort, and money they are willing to put forth. Operating a successful business of any type requires careful planning and sound management decision making.*
3. *The Smiths probably did not seek help for one of the following reasons:*
   - *a. unaware of available assistance and information*
   - *b. unwilling to seek assistance and information*
   - *c. did not take the time to seek assistance and information*
   - *d. decided they could not afford assistance and information*
4. *The following possible sources of information and assistance might have been helpful to the Smiths:*
   - *a. lawyer*
   - *b. accountant*
   - *c. banker*
   - *d. suppliers*
   - *e. chamber of commerce*
   - *f. trade associations*
   - *g. Small Business Administration*
   - *h. Bureau of the Census*







unit thirteen

insurance

It is essential that adequate insurance coverage be maintained by a business. Without insurance, the owner takes an extremely high risk. A lifetime of work can be lost in a very short time if adequate insurance protection is not maintained. A sound insurance protection plan is just as important to the business as good financial management, managerial planning, or any other business function.

This unit will stress the importance of adequate insurance protection and list the essential insurance needed by a business. Various types of optional insurance protection will also be listed.

Unit Objectives

- *To emphasize the importance of a sound insurance protection plan to a business.*
- *To provide information regarding essential and optional insurance available to a business.*

Student Objectives

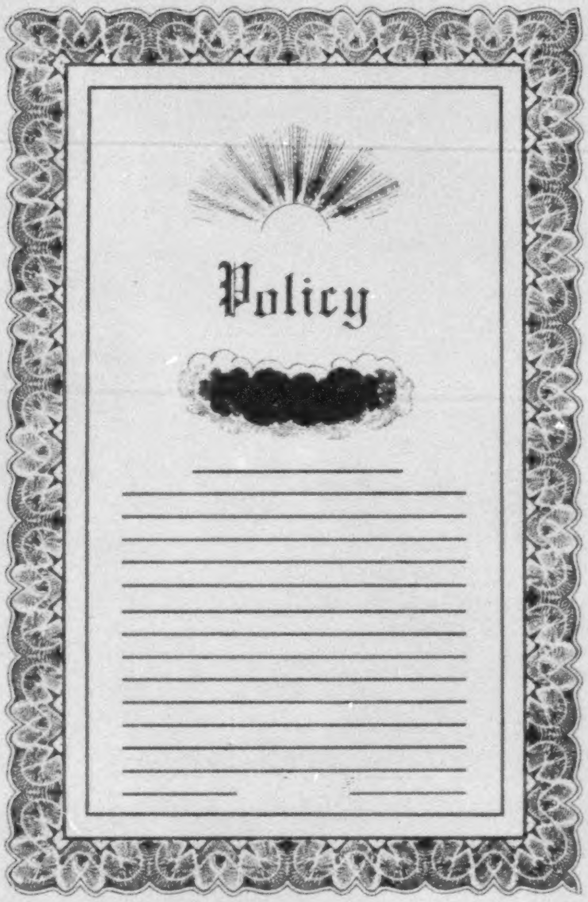
- *Given a particular business, the student will be able to:*
  - *a. Explain why a sound insurance protection plan is essential to a business.*
  - *b. List the types of insurance protection applicable to the particular business.*

I. Is Insurance Really Necessary?

A. Since the entrepreneur attempts to reduce any high risk situations by making adequate plans and taking corrective action, it is essential that sound insurance protection be maintained.

B. Without adequate insurance protection, a lifetime of work can be destroyed in a very short time. The financial loss can be devastating to a business.

- *The instructor may ask the students to determine if an entrepreneur would take the high risk of operating a business without adequate insurance protection.*



II. What Types Of Insurance Protection Are Available?

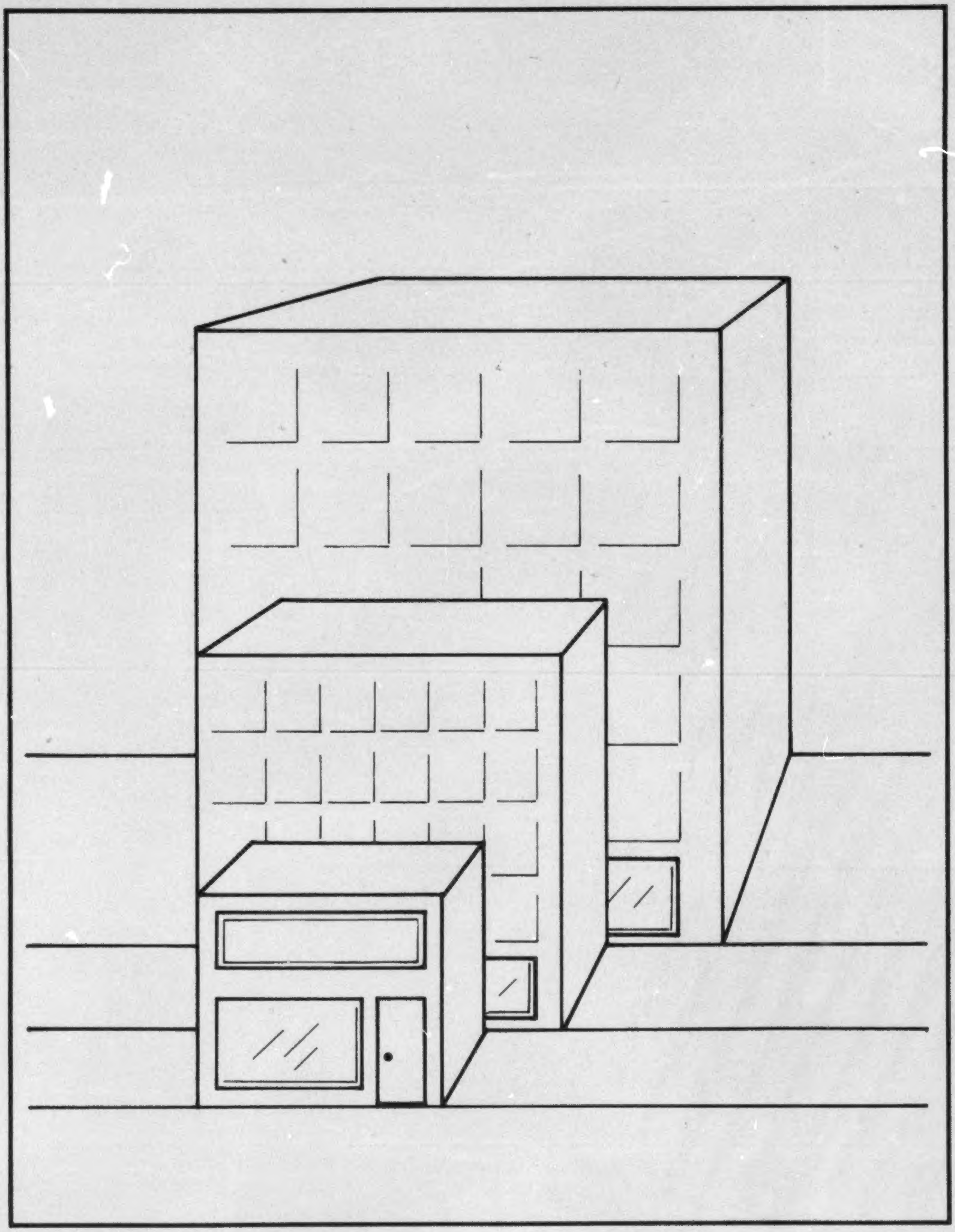
A. Four kinds of insurance are essential for a business: fire insurance, liability insurance, automobile insurance, and workmen's compensation insurance.

1. **Fire insurance** can be expanded to include other dangers such as windstorm, smoke, hail, etc.
2. **Liability insurance** protects the business from financial loss due to bodily injury occurring at the place of business to outsiders such as customers.
3. **Automobile liability insurance** is required by law in most states. When employees use their own car on behalf of the business, the business can be legally liable.
4. **Workmen's compensation insurance** is legally required in about half of the states. It protects the business from financial loss due to employee injuries occurring on the job.

B. There are many types of optional insurance which may be desirable for a business. Three of these include: business interruption insurance, crime insurance, and employee benefit coverages.

1. **Business interruption insurance** covers fixed expenses that would continue if fire closed the business. Examples of these expenses include salaries, taxes, utilities, etc. Profits that would be lost are also covered.
2. **Crime insurance** covering theft and destruction is also available.
3. **Employee benefit coverages** include: group life insurance, group health insurance, disability insurance, and retirement income. Employee benefit coverages can help reduce employee turnover, and help to create good employer-employee relations.

- *Have the students list the types of insurance they believe are necessary for their particular businesses. Then ask the students where they can obtain assistance and information. Professional advice regarding insurance can be obtained from a qualified agent.*



unit fourteen

future of a small business

It is doubtful that this country will totally abandon its attitude toward free enterprise and the importance of the small business. Indications point to the fact that the future of small business in this country is bright. In general, trends would appear to be consistent with the present in many respects. The manufacturing domain will continue to be dominated by the large concerns, while small and medium businesses in the retail and service areas show growth potential.

However, it is not wise for the business owner to assume that since the overall future of small business is bright, the future of all small businesses is secure. It is not enough to operate a business day-to-day and let tomorrow take care of itself. If business owners take this attitude toward the future, they will be hanging on to the coattails of those competitors who have planned for the future of their businesses, or they will have joined the ranks of business failures.

This unit contains a list of several questions for discussion and suggested activities which will encourage students to plan for their future in business. The successful entrepreneur is able to look at a business five, ten, and even twenty years hence and plan for its continued profit and growth.

Unit Objectives

- *To provide questions and activities that will encourage students to plan for the future of their particular businesses.*

Student Objectives

- *Given a particular business, the student will be able to develop plans for the future of the business by:*
  - *a. Participating in a class discussion of several futuristic questions.*
  - *b. Participating in planning activities for a particular business.*

I. Why Plan for the Future?

A. Failure to make plans for the future can cause business failure.

B. If a business does not forecast its future performance and future needs, it will probably not be able to take advantage of opportunities for growth and development.

C. Successful competitors will be planning for the future. If a business is to enjoy continued success, it must be able to cope with change.

II. What Should Be Included in Planning for the Future?

A. Every aspect of the business operation should be included in plans for the future. Examples would include the following:

1. Products or services offered
2. Potential market
3. Personnel requirements
4. Growth or expansion
5. Capital requirements

- *Using the form on the next page, select a business and plan any changes or growth in the business for the next five, ten, and twenty years. For example, you might consider physical expansion of the business. In five years you may plan to own two stores. In ten years you may plan to own three stores, and in twenty years five stores. You should be able to make similar plans for other aspects of the business such as products offered for sale, employees needed, etc.*

Change

Decision-making

Worksheet for Long-range Planning

Business Aspect	5 Years	10 Years	20 Years
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

- *Using the overhead projector, the instructor should direct a class discussion concerning the following questions. The questions may also be used as a written assignment to generate business planning for the future. For the purpose of the following activity, have students select a business which they would like to own.*

Suggested Questions for Discussion:

1. *Would you like to own a business for twenty years? How do you think your business will have to change during this twenty year period?*
2. *Will you have expanded the business by then? How much? Why?*
3. *Will you be providing the same products or services twenty years from now?*
4. *What new industries will exist, providing what new products or services?*
5. *What new markets will you try to enter?*
6. *How many hours will you and your employees work each week? Will you give longer vacations? How will this affect your expenses?*
7. *Will your business become a self-service operation?*
8. *Will increased leisure time demand new products and services? How can you take advantage of this?*
9. *In the future, will all of your management decisions be made by computer? Will you need to know how to use computers?*
10. *Will increased automation cause more employment in the service areas?*
11. *Will service businesses be eliminated by the use of disposable products?*
12. *Will increased government controls become necessary in the future? Why? How will this affect your business?*
13. *How will improved or instantaneous communications affect such things as ordering merchandise and advertising certain products and services?*
14. *Will better methods of shipping and transportation help your business?*
15. *Predictions indicate that a vast majority of the population will live in huge metropolitan areas. How will this affect your market?*
16. *Will you be able to continually update your skills in order to keep up with advances in your field?*
17. *Does the utilization of the oceans represent a potential market for your business or any business?*
18. *Will we have a cashless society? What affect will this have on your business?*
19. *Does the continued emphasis on protecting the environment have any effect on your business? Will this create any opportunities or problems for the business?*
20. *Will improved communications and transportation methods allow you to transact business throughout the world?*
21. *Would an energy shortage offer any opportunities or problems for your business?*
22. *Will there be a safe and effective way for business owners and managers to control their own fatigue, mood, and personality?*
23. *What kind of banking system will be available to your business?*
24. *Will overcrowded conditions create a demand for products which increase privacy?*
25. *Will the increased life span of people create needs for new products for older people?*
26. *With increasing emphasis on convenience, will you be forced to bring your product or service directly to the customer?*

- *Working in groups the students should be able to develop a list of additional questions to be considered when planning for the future.* Creativity

- *Using the following form for each goal, the student should:*

1. *Generate specific goals which are personally important and are directly related to the business.*
2. *List actions taken to achieve the goal.*
3. *List possible conditions that could occur that would block achievement of the goal.*
4. *List action taken to alleviate conditions blocking achievement of the goal.*

Achievement

Worksheet for Goal Achievement

Specific Goal Statement:

Action Taken to Achieve Goal (Should Include Approximate Timetable)

1.
2.
3.
4.
5.

Possible Conditions That Could Occur That Would Block Achievement of Goal

1.
2.
3.
4.
5.

Action Taken to Alleviate Conditions Blocking Achievement of Goal

1.
2.
3.
4.
5.

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Your Business Tax Kit, Department of the Treasury, Internal Revenue Service. This kit is designed to help business owners comply with Federal tax laws and regulations.

Small Business Administration Publications

A complete listing of all Small Business Administration publications including directions for ordering, can be obtained from the nearest SBA field office. The addresses and telephone numbers of SBA field offices are listed under United States Government in the respective city telephone directories.

Free Management Assistance Publications:

Management Aids. These leaflets deal with functional problems in small manufacturing plants and concentrate on subjects of interest to administrative executives.

Technical Aids. These leaflets are intended for top technical personnel in small concerns or for technical specialists who supervise that part of the company's operations.

Small Marketers Aids. These leaflets provide suggestions and management guidelines for small retail, wholesale, and service firms.

Small Business Bibliographies. These leaflets furnish reference sources for individual types of businesses.

For-Sale Booklets:

Small Business Management Series. The booklets in this series provide discussions of special management problems in small companies.

Starting and Managing Series. This series is designed to help small entrepreneurs in their effort to "look before they leap" into a business. The first volume in the series—*Starting and Managing a Small Business of Your Own*—deals with the subject in general terms. Each of the other volumes deals with one type of business in detail.

Small Business Research Series. These books report on research done concerning various small business problems.

Nonseries Publications. These books deal with various specific problems related to small business ownership and management.

Administrative Management Subject Presentations. Each of these booklets presents a complete one-session subject presentation of a selected topic.

Films:

SBA's Management Training Films. These 16mm sound/color films are available for use in training sessions for present and prospective small business owners co-sponsored by SBA and educational institutions, government agencies, business firms, local business groups, Chambers of Commerce, or other organizations. Many of these films are available for purchase or rental at very nominal costs from the Sales Branch, National Audiovisual Center—GSA, Washington, D.C. 20409. Lists of these films may be obtained from SBA field offices or the National Audiovisual Center.

Business and Economics Films. This subject area catalog is available from the Visual Aids Service of the University of Illinois, Urbana, Illinois 61801. Descriptions of films and instructions for ordering are included.

The Internal Revenue Service offers films regarding tax concerns and recordkeeping. For information contact the nearest IRS District Office.

Other Resources:

Birth of a Business, available from Thompson-Mitchell and Associates, 2996 Grandview Avenue, N.E., Atlanta, Georgia 30305. This is a program consisting of twelve cassette tapes, each dealing with a separate aspect of establishing a business. The cost is $72.00.

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Minority Business Filmstrip Program, Continental Bank, 231 South LaSalle Street, Chicago, Illinois 60690. A three part series designed to help the instructor assist minority people who are interested in starting their own businesses or who are already in business. The program is available for a two week preview at the cost of $100.00.

Small Business Reporter, Bank of America, San Francisco. Published ten times a year, with topics for each issue based on small business community needs. Additional publications available include: *Business Profiles,* a series of reports which deal with specific businesses, discussing the investment requirements and operational format of each. *Business Operations,* a series of reports which describe and explain various aspects of management and operations relating to problems encountered in all fields of business ownership; *Professional Management,* reports which discuss the business side of medical practice for physicians, dentists, and veterinarians.

appendix A

small business perceptions inventory

For each statement, place a check (√) in the column that best reflects your opinion. This instrument is a measure of your perceptions and opinions regarding small business. Because opinions are personal beliefs, there are no incorrect responses to the following statements.

	Strongly Agree	Agree	Disagree	Strongly Disagree
	SA	A	D	SD
1. Small business ownership and management is a practical career option.				
2. Formal education is essential for successful small business ownership and management.				
3. Most young people lack the confidence and experience necessary for small business ownership and management.				
4. Working for someone else and having steady income and a secure job is better than owning a small business where regular income is not guaranteed.				
5. Individuals either have the necessary personal characteristics to be a small business owner or they do not. These personal characteristics cannot be acquired.				
6. Large businesses have a better chance for success in today's economic and social environment than small businesses.				
7. Giant corporations dominate our business system to such a degree that small businesses cannot successfully compete.				
8. Most small business owners are highly motivated toward achievement.				
9. Most successful small business owners seek new challenges.				
10. The primary reason people tend to go into business for themselves is to make large profits.				
11. The successful small business owner is usually willing to take moderate rather than high risks.				
12. It is essential that the successful small business owner be an innovative individual.				

	SA	A	D	SD
13. A small business is not able to cope with changing economic situations as rapidly as a larger business.				
14. The success of small business owners depends to a great extent on their ability to solve problems and make decisions.				
15. It is essential that a person who owns and manages a business possess leadership qualities.				
16. The successful small business owner can get along well with all types of people.				
17. It is necessary for small business owners to believe in themselves.				
18. The freedom associated with being your own boss allows the small business owner to pursue many interests outside of the business.				
19. The development of formal business plans for the future is not as important to small businesses as it is to larger businesses.				
20. Making a profit should be the primary concern of a small business.				
21. Even though the costs may be high, a small business must operate with the philosophy that the customer is always right.				
22. It is usually possible for the small business owner to be involved in low risk activities which will bring high profits.				
23. A small business should use only proven business methods. It cannot afford to try new ideas.				
24. The average rate of net profit for a small business in the United States is 20%.				
25. The corporate form of legal organization is not suitable for a small business.				
26. Actual work experience in a business is essential before starting a business for oneself.				
27. Small business owners should develop plans for the next year's operation at least one year ahead of time.				
28. Personal savings is the safest and best means to finance a business venture.				
29. Small business owners should never delegate their authority to employees.				
30. Working long hours is the most effective way to insure the success of a small business.				
31. Small businesses are outnumbered by large businesses in the United States.				

	SA	A	D	SD
32. It is highly probable that a bank will loan an individual with a good business idea money needed to begin operation of a business.				
33. Most successful small businesses are in the retail field and sell directly to the consumer.				
34. Small business contributes a great deal to the growth of the United States economy each year.				
35. Most small business failures can be attributed to factors that the owner cannot control.				
36. In a small business, employee morale is most affected by the amount of wages paid.				
37. The future for small business in the United States is bright.				
38. Regardless of the existing competition in a given market, there is always room for another business.				
39. Most small business owners make good use of the free assistance and information which are available to them.				
40. The location of a small business is not usually important because people will go out of their way for good service or a product that they really want.				
41. If small business owners cannot afford to hire an accountant, they should not be in business.				
42. Forecasting future sales and expenses of a small business is guesswork.				
43. A small business should be located as far from its competitors as possible.				
44. Small business owners cannot realistically avoid offering customers credit because it has become so much a part of the business world.				
45. Advertising and sales promotion should be less than 15% of total expenses for a small business.				
46. Successful management of a small business depends on the skillful use of one's time.				
47. Good community relations is a major concern of most small businesses.				
48. The majority of new small businesses end in failure within five years.				
49. Those businesses which are presently most successful will probably remain successful into the future.				
50. Women are just as capable as men of owning and operating a small business.				

appendix B

small business ownership and management test

Circle **T** if the statement is true, or **F** if the statement is false.

1. T F According to the Small Business Administration, a manufacturing business which employs one hundred people cannot be classified as a small business.
2. T F The retail, wholesale, service, manufacturing, and construction fields are all fields of opportunity for small business ownership and management.
3. T F Small businesses contribute approximately 40% of the gross national product of the United States.
4. T F Small businesses tend to have specialized management.
5. T F People tend to go into business for themselves so that they can work less hours.
6. T F Small business owners are usually willing to take high risks.
7. T F Government agencies, such as the Bureau of Census, are good sources of information concerning customer behavior.
8. T F It is important for a business owner to know where potential customers are currently purchasing similar products or services.
9. T F A personal preference for a particular area is an important consideration when deciding on a particular community for a business.
10. T F When analyzing the competition, an important factor to be considered is the free services provided by competitors.
11. T F Location of competitors is an important consideration when selecting a particular site for a business.
12. T F The market for a business is comprised of people who are able to buy the product or service.
13. T F Initial debt, or credit, financing of a business is obtained from personal savings.
14. T F Commercial banks are possible sources of equity capital for a business.
15. T F When evaluating a small business loan applicant, the lender takes into consideration the economic conditions of the community.

16. T F When the lender evaluates a small business loan applicant, the physical appearance of the applicant is the most important consideration.

17. T F The written business plan should include the plan of action or strategy for success.

18. T F In a sole proprietorship, the owner incurs limited liability for business debts.

19. T F A limited partner may not take an active role in management of a business.

20. T F A franchise business usually offers the owner a great deal of independence regarding operation of the business.

21. T F Planning involves the formulation of management goals which are specific, measurable, and realistic.

22. T F An employee cannot be held accountable for a task if the authority necessary to accomplish the task is not given to the employee.

23. T F Long-range goals must state how the desired outcome will be achieved.

24. T F Short-range goals are entirely independent of long-range goals.

25. T F Planning is of limited value to the small business since the future is uncertain.

26. T F The total amount of money deposited in the business checking account for the day should be entered on the daily receipts summary.

27. T F A business record that summarizes all of the cash received by a business on a particular day is called an accounts receivable register.

28. T F Gross profit is included on the balance sheet of a business.

29. T F Accounts payable are classified as assets on the balance sheet of a business.

30. T F Inventory is classified as a liability on the balance sheet of a business.

31. T F Gross profit is depicted on the income statement of a business.

32. T F Ratio analysis will provide a means to compare a particular business with industry norms.

33. T F The current ratio measures the liquidity of a business.

34. T F A cash forecast will help the business owner determine whether or not a short-term loan will be needed during a particular period of time in the future.

35. T F Increased sales is an advantage gained by a small business as a result of extending credit to its customers.

36. T F Less working capital is needed by a business which extends credit to its customers.

37. T F By accepting credit cards, a business can avoid all costs of extending credit to its customers.

38. T F When a business accepts credit cards, it avoids the problem of collecting delinquent accounts.

39. T F The "truth in lending" law requires that the terms of credit must be clearly and concisely stated on the sales contract.

40. T F The introduction, body, and closing are the main components of an advertisement.

41. T F A good advertisement should be complicated.

42. T F Radio advertising is only effective when it is used consistently.

43. T F A good means of evaluating an advertisement is to ask customers how they found out about the product or service.

44. T F Offering free samples is one method of sales promotion.

45. T F The amount of money spent by a business for advertising should be that amount which results in the greatest number of sales.

46. T F Group life insurance for employees is an essential type of insurance needed by a business.

47. T F Employees are a good source of information and assistance for the small business owner.

48. T F Quality of products or services is a primary customer motive for patronizing a particular business.

49. T F Long-range plans for the future of a business should include consideration of potential markets for the product or service.

50. T F The future of small business in the United States is bright.

Circle the best answer.

51. Of the eight million businesses in the United States approximately what percentage are small?

A. 25%
B. 50%
C. 75%
D. 95%

52. The best definition for a small business is:

A. one which is independently owned, not dominant in its field of operation, operated for profit, and meets particular size standards for its industry or area.
B. a sole proprietorship having few employees and serving only the local community.
C. a locally operated business with a minimum capital investment and a profit margin of less than 10%.
D. a business of any type operating on a limited scale.

53. The vast majority of small business failures occur during the first:

A. 2 years
B. 4 years
C. 6 years
D. 10 years

54. It has been estimated that at least 90% of all small business failures can be attributed to:

A. poor management
B. bad luck
C. economic recession
D. none of the above

55. By segmenting the market into groups it is easier for a business to:

A. determine which products or services each group needs or wants.
B. share the market with its competitors.
C. collect delinquent accounts receivable.
D. establish a merchandise control system.

56. The best way for a small business owner to select a location is:

A. to ask friends or relatives for information.
B. look for a vacancy sign
C. look through newspaper advertisements.
D. determine a product and market and then search for an appropriate location.

57. The prospective small business owner will probably be able to borrow no more than what percentage of the capital needed to start the business?

A. 100%
B. 90%
C. 50%
D. 20%
E. 10%

58. Most small businesses in the United States are organized as a:

A. sole proprietorship
B. partnership
C. limited partnership
D. corporation
E. franchise

59. Which of the following legal forms of organization allows all of the owners of a business to incur limited liability for business debts?

A. corporation
B. general partnership
C. limited partnership
D. sole proprietorship
E. none of the above
F. all of the above

60. Which of the following legal forms of organization affords the business legal continuity upon the death or incapacity of the owner(s)?

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation
- E. none of the above
- F. all of the above

61. Which of the following legal forms of organization is usually the least expensive and easiest to start?

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation
- E. the costs and procedures for starting a business are the same for all of the legal forms of organization.

62. Of the following legal forms of organization which form usually affords specialized management to the business?

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation

63. Which of the following legal forms of organization usually places a business in the best position to obtain additional capital?

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation

64. A "double tax" is imposed on which of the legal forms of organization?

- A. sole proprietorship
- B. partnership
- C. limited partnership
- D. corporation

65. The rate of change in the business world:

- A. has slowed down in recent years
- B. has remained constant in recent years
- C. is accelerating every year
- D. is impossible to measure
- E. is not as important to a small business as it is to a large business

66. A business organization chart depicts:

- A. the long-range goals of a business
- B. the short- and long-range goals of a business
- C. the job positions necessary for operation of the business
- D. the job descriptions for all positions within the business
- E. all of the above

67. It is best for each employee to have:

- A. one supervisor
- B. two supervisors
- C. three supervisors
- D. four supervisors
- E. doesn't make any difference

68. Long-range goals need to be evaluated for actual progress versus planned progress:

- A. at selected control points which clearly follow the guidelines established by the short-range goals
- B. when the long-range planning period has ended
- C. whenever it is convenient for management to evaluate the progress
- D. only at a time when it is possible for management to take necessary corrective action

69. With regard to business records; the law requires that:

- A. all businesses acquire the services of an accountant to keep adequate business records
- B. some form of records be kept by all businesses
- C. every small business owner personally perform the recordkeeping function
- D. all business records must be audited by a certified public accountant

70. All money received by a business should be deposited in the business checking account:

- A. daily
- B. weekly
- C. every two weeks
- D. monthly

71. Very small business payments, such as postage due on mail delivered can best be accomplished by:

- A. writing a business check for the exact amount
- B. using a petty cash system
- C. using personal funds since the amount is small
- D. using personal funds at the time but taking a reimbursement from business funds at the next opportunity

72. A record that is used by a business to keep track of money owed to the business by customers is called:

- A. a daily receipts summary
- B. a business checkbook
- C. an accounts receivable register
- D. a bank reconciliation statement

73. Which of the following records is used in order to make sure that the business's figures agree with the bank's figures regarding the cash balance in the business checking account?

A. a bank draft
B. a bank reconciliation statement
C. a deposit slip
D. a counter check

74. How often is a petty cash slip written?

A. at least once a day
B. as cash becomes depleted in the petty cash fund
C. each time petty cash is used
D. to establish a petty cash fund
E. when balancing the business checkbook

75. The balance sheet for a business shows:

A. the financial position of the business at a particular time
B. the salary of management and all other employees of the business
C. the amount of annual sales for the business
D. the net profit for the year

76. Which of the following equations is represented by the balance sheet?

A. assets + liabilities = equity
B. assets + equity = liabilities
C. assets - liabilities = equity
D. liabilities - assets = equity

77. The income statement shows:

A. the financial position of the business at a particular time
B. the amount of owner investment
C. a projected sales forecast and expense summary
D. the profit or loss during the financial period

78. To use ratio analysis effectively, a small business owner must:

A. use only a single ratio
B. compare his or her ratios with industry norms
C. first identify problem areas for the business
D. use the process only once every five years

79. Figures used in ratio analysis are taken from:

A. the cash register tapes
B. the financial statements of the business
C. business periodicals
D. the projected sales forecast and expense summary

80. The liquidity of a business measures:

A. the speed at which merchandise is being sold
B. how quickly the credit sales are being collected
C. the ability of the business to meet all of its financial obligations quickly
D. the return obtained on the owner's investment in the business

81. A cash forecast should always be ahead of current operations by at least:

A. one month
B. three months
C. six months
D. 12 months
E. 24 months

82. Which of the following credit plans grants a line of credit or ceiling amount of credit to the customer?

A. installment account
B. charge account
C. revolving charge account
D. budget account

83. A credit applicant's past record of payment or nonpayment is known as his or her:

A. capacity
B. character
C. capital
D. conditions

84. If a delinquent account has not been paid after several reminders, the business should probably:

A. send another polite reminder by mail
B. make a telephone call to the customer as a polite reminder
C. send a letter threatening a jail sentence if the account is not paid
D. turn the account over to a lawyer or collection agency
E. give up trying to collect the account

85. The first step in establishing an advertising campaign for a business is to:

A. decide which medium to use
B. select a target market
C. determine the advertising budget
D. create the advertisements

86. The least expensive and probably most important type of advertising available to a small business is:

A. direct mail
B. word of mouth
C. television
D. radio
E. newspaper

87. Probably the surest means of reaching an identified target market is by using:

A. direct mail
B. television
C. radio
D. newspaper

88. The medium which probably reaches the greatest number of prospects within a community is:

A. newspaper
B. radio
C. television
D. outdoor advertising

89. A window display should be changed at least every:

A. day
B. week
C. month
D. 6 months
E. year

90. Of the factors that are important to good attitudes on the job, employees "typically" rank money:

A. at the top of the list
B. near the top of the list
C. in the middle of the list
D. near the bottom of the list
E. at the bottom of the list

91. In order to devote most of his or her time to management activities, it is necessary that the owner:

A. have a private office where necessary paperwork can be completed
B. delegate responsibility and authority whenever possible
C. develop job titles and descriptions for every position within the business
D. regularly do most of the routine work

92. Of the factors that are important to good attitudes on the job, which of the following do employees typically rank at or very near the top of the list:

A. money
B. hours
C. ease of job
D. security
E. working conditions

93. Which of the following kinds of insurance protects the business from financial loss due to employee injuries occurring on the job?

A. liability insurance
B. workmen's compensation insurance
C. business interruption insurance
D. key man insurance

94. If an employee uses his or her own car on behalf of the business:

- A. the business is not legally liable
- B. the business can be legally liable
- C. the employee must have personal automobile liability insurance
- D. the business has broken the law, since it is illegal to do so

95. Which of the following kinds of insurance protects the business from financial loss due to bodily injury occurring at the place of business to outsiders such as customers?

- A. liability insurance
- B. workmen's compensation insurance
- C. business interruption insurance
- D. key man insurance

96. Probably the best source of information regarding a business's public image is:

- A. a lawyer
- B. an accountant
- C. customers
- D. employees
- E. other business owners

97. Probably the most helpful national agency for the small business owner is the:

- A. Small Business Administration
- B. Internal Revenue Service
- C. Bureau of the Census
- D. American Management Association

98. Information regarding the demographic characteristics, such as age, income, marital status, etc., of potential customers can best be obtained from:

- A. professionals such as a lawyer, an accountant, or a banker
- B. the Internal Revenue Service
- C. the Bureau of the Census
- D. the Better Business Bureau
- E. the local credit bureau

99. The improved communications of the future will probably:

- A. decrease the market size for a small business
- B. increase the market size for a small business
- C. have little effect on small businesses
- D. decrease competition in the business world

100. If a business is to enjoy continued success in the future it must:

- A. develop long-range plans and stick to them at all costs
- B. experience growth and expansion
- C. be able to cope with change
- D. concentrate on one product or service

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Answers To Small Business Ownership and Management Test

1. F
2. T
3. T
4. F
5. F
6. F
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46. F
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48. T
49. T
50. T
51. D
52. A
53. A
54. A
55. A
56. D
57. C
58. A
59. A
60. D
61. A
62. D
63. D
64. D
65. C
66. C
67. A
68. A
69. B
70. A
71. B
72. C
73. B
74. C
75. A
76. C
77. D
78. B
79. B
80. C
81. B
82. C
83. B
84. D
85. B
86. B
87. A
88. A
89. C
90. C
91. B
92. D
93. B
94. B
95. A
96. C
97. A
98. C
99. B
100. C